

BEFORE THE
TENNESSEE REGULATORY AUTHORITY

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REGULATORY AUTH.

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IN THE MATTER OF)

APPLICATION OF ITC^DELTA COM)
COMMUNICATIONS, INC., TO)
INCUR DEBT OBLIGATIONS)

EXECUTIVE SECRETARY
Docket No. 00-00165

APPLICATION FOR APPROVAL TO
INCUR DEBT OBLIGATIONS

ITC^DeltaCom Communications, Inc., ("ITC^DeltaCom") hereby respectfully requests, pursuant to T.C.A. 65-4-109, all necessary authority from the Tennessee Regulatory Authority ("TRA") to become a guarantor of a credit facility in an aggregate amount not to exceed \$175 million, the borrower of which will be Interstate FiberNet, Inc., ("IFN") a Delaware corporation and sole shareholder of ITC^DeltaCom, and a guarantor of which will be ITC^DeltaCom, Inc., (the "Holding Company") a Delaware corporation, publicly traded on the NASDAQ National Market and sole shareholder of IFN. ITC^DeltaCom respectfully requests the TRA grant all necessary authority requested in this Application on an expedited basis to allow the credit facility transaction to close on or before March 31, 2000.

In support of this Application, ITC^DeltaCom provides the following information:

I. THE APPLICANT AND RELATED COMPANIES

ITC^DeltaCom is an Alabama corporation qualified to transact business in Tennessee as a foreign corporation and a wholly-owned subsidiary of IFN. ITC^DeltaCom received its authority from the TRA to provide resale interexchange and operator services in Tennessee on September 8, 1995, in Docket No. 95-02826, and expanded its certificate to include competitive local exchange services pursuant to T.C.A. 65-4-201(c) on January 2, 1997, in Docket No. 96-

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01431. In addition, ITC^DeltaCom is certified by the FCC as a provider of long distance, operator and international telecommunications services and is authorized to provide various telecommunications services, pursuant to certification, registration, tariff, or on an unregulated basis, in forty-nine (49) States. In addition to the State of Tennessee, ITC^DeltaCom is also certified as a competitive local exchange carrier in the States of Alabama, Arkansas, Georgia, Florida, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Texas.

IFN is a Delaware corporation and a wholly-owned subsidiary of the Holding Company. IFN is certified by the Federal Communications Commission ("FCC") as an interstate facilities-based carrier's-carrier and is authorized to provide carrier's-carrier telecommunications services, pursuant to certification, registration, tariff, or on an unregulated basis, in the States of Alabama, Arkansas, Georgia, Florida, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Texas.

The Holding Company, or ITC^DeltaCom, Inc., is a Delaware corporation and publicly traded on the NASDAQ National Market. The Holding Company is the controlling parent company of both IFN, a first-tier subsidiary, and ITC^DeltaCom, a second-tier subsidiary.

ITC^DeltaCom and IFN had combined annual revenues in 1998 of approximately \$171 million. Current consolidated financial and other descriptive information for the Holding Company, IFN and ITC^DeltaCom, is provided with this Application in the form of ITC^DeltaCom, Inc.'s 1998 Annual Report to Shareholders, attached as **Exhibit A**, and the latest SEC Forms 10-Q for the quarters ended March 31, June 30, and September 30, 1999, are enclosed with this Application as **Exhibit B**.

II. DESIGNATED CONTACTS.

The designated contacts for correspondence and inquiries concerning this Application are:

Rodney N. Hyatt	Nanette S. Edwards
Assistant General Counsel	Regulatory Affairs Manager
ITC^DeltaCom Communications, Inc.	ITC^DeltaCom Communications, Inc.
4092 S. Memorial Parkway, S.E.	4092 S. Memorial Parkway, S.E.
Huntsville, AL 35802	Huntsville, Alabama 35802
Ph: (256) 382-3846	Ph: (256) 382-3856
Fax: (256) 382-3936	Fax: (256) 382-3936

III. REQUEST FOR ALL NECESSARY AUTHORITY TO INCUR INDEBTEDNESS

ITC^DeltaCom as Guarantor

By this Application, ITC^DeltaCom seeks TRA approval of the participation of ITC^DeltaCom as a guarantor to a credit facility not to exceed an aggregate amount of \$175 million to fund, among other things, continued growth and expansion of ITC^DeltaCom and IFN.

Description of Credit Facility

The credit facility will be in the form of a term loan facility in the amount of \$100 million and a term loan facility in the amount of \$60 million with the possibility that the aggregate amount of both term loan facilities could be increased to an amount not to exceed \$175 million. IFN will be the borrower and the Holding Company and ITC^DeltaCom will be guarantors of the credit facility. The repayment of the \$100 million portion of the credit facility would be secured by substantially all of the assets of IFN, the Holding Company and ITC^DeltaCom and repayment of the remaining \$60 million portion of the credit facility would be secured primarily by equipment to be purchased with this portion. The repayment term for the credit facility is approximately 90 months from the transaction closing date, subject to certain terms and

conditions. The definitive documents for establishing this credit facility are in the process of being drafted by the lenders, IFN, the Holding Company and ITC^DeltaCom.

Use of Proceeds

Although plans are not final, ITC^DeltaCom, IFN and the Holding Company currently plan to use approximately 90% of the proceeds of the credit facility to finance capital growth in the nature of acquisition of telecommunications equipment (switches, optical fiber, etc.), land, buildings, etc., to allow ITC^DeltaCom and IFN to expand their current provision of services in their respective service areas, including Tennessee with respect to ITC^DeltaCom. The remaining approximate 10% is anticipated to be used as additional working capital and for other general corporate purposes.

IV. PUBLIC INTEREST CONSIDERATIONS

Consummation of the proposed transactions will serve the public interest in promoting competition among telecommunications carriers by providing ITC^DeltaCom with the opportunity to strengthen its competitive position with greater financial resources. The borrowings under the credit facility, as described herein, are necessary and appropriate, are consistent with the performance by ITC^DeltaCom of its services to the public, will not impair the ability of ITC^DeltaCom to perform such services, and will promote a lawful objective within the corporate purposes of ITC^DeltaCom.

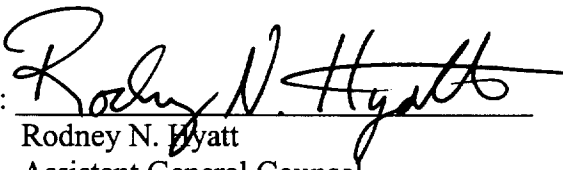
IV. DEBT OBLIGATION IS IN ACCORDANCE WITH LAW

The credit facility, as described herein, is in accordance with law as further asserted in attached **Exhibit C**.

WHEREFORE, ITC^DeltaCom respectfully requests the Tennessee Regulatory Authority grant all necessary authority for ITC^DeltaCom to establish the credit facility described herein.

Respectfully Submitted,

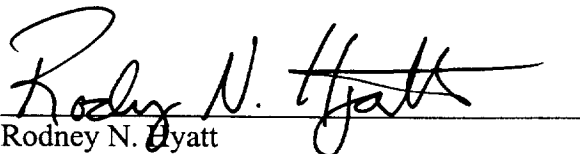
ITC^DeltaCom Communications, Inc.

By: 
Rodney N. Hyatt
Assistant General Counsel
ITC^DeltaCom Communications, Inc.
4092 S. Memorial Parkway, S.E.
Huntsville, AL 35802
Ph: (256) 382-3846
Fax: (256) 382-3936

Dated: February 18, 2000

VERIFICATION

I am authorized to represent ITC^DeltaCom Communications, Inc., and to make this verification on its behalf. The statements contained in the foregoing document are true of my own knowledge, except as to matters which are herein stated on information and belief, and as to those matters, I believe them to be true. I declare under penalty of perjury that the foregoing is true and correct.



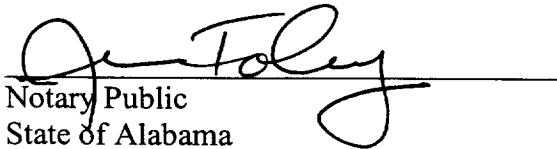
Rodney N. Wyatt

Assistant General Counsel

ITC^DeltaCom Communications, Inc.

Date: February 18, 2000

Sworn and subscribed to
before me this 18th day
of February, 2000.


Notary Public
State of Alabama

My commission expires: MY COMMISSION EXPIRES 7-1 2001

EXHIBIT A

ITC^DELTACOM

1998 ANNUAL REPORT TO SHAREHOLDERS

EXHIBIT B

ITC^DELTACOM

**SEC FORMS 10-Q FOR QUARTERS ENDED
MARCH 31, JUNE 30 AND SEPTEMBER 30, 1999**

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 1999

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-23253

ITC^DELTACOM, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

58-2301135
(I.R.S. Employer
Identification Number)

1791 O.G. Skinner Drive, West Point, GA
(Address of principal executive offices)

31833
(Zip Code)

Registrant's telephone number, including area code: (706) 385-8000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X
_____ No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding at May 12, 1999

Common Stock at \$.01 par value 58,000,212 shares

PART I
FINANCIAL INFORMATION

Item 1 – Financial Statements

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 1999 <u>(Unaudited)</u>	December 31, 1998 <u></u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 151,294	\$ 184,167
Restricted assets	14,300	14,300
Accounts receivable:		
Customer, net of allowance for uncollectible accounts of \$1,455 and \$1,260 in 1999 and 1998, respectively	36,101	34,219
Affiliate	3,174	3,307
Inventory	1,987	1,635
Prepaid expenses	1,341	591
Federal income tax receivables	3,939	3,939
Total current assets	<u>212,136</u>	<u>242,158</u>
 PROPERTY, PLANT AND EQUIPMENT, net	 <u>284,530</u>	 <u>262,050</u>
OTHER LONG-TERM ASSETS:		
Intangible assets, net of accumulated amortization of \$6,946 and \$6,303 in 1999 and 1998, respectively	62,517	63,160
Restricted assets	6,055	5,735
Other long-term assets	13,885	14,414
Total other long-term assets	<u>82,457</u>	<u>83,309</u>
 Total assets	 <u>\$ 579,123</u>	 <u>\$ 587,517</u>

The accompanying notes are an integral part of these consolidated balance sheets.

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	March 31, 1999 <u>(Unaudited)</u>	December 31, 1998 <u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable:		
Trade	\$ 12,669	\$ 12,810
Construction	10,881	7,233
Accrued interest	11,140	8,049
Accrued compensation	2,673	2,998
Unearned revenue	9,218	11,457
Other accrued liabilities	8,445	8,418
Current portion of long-term debt and capital lease obligations	<u>1,069</u>	<u>1,075</u>
Total current liabilities	<u>56,095</u>	<u>52,040</u>
LONG-TERM LIABILITIES:		
Deferred income taxes	418	418
Long-term debt and capital lease obligations	<u>416,692</u>	<u>416,859</u>
Total long-term liabilities	<u>417,110</u>	<u>417,277</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred Stock, \$.01 par value; \$7.40 liquidation preference; 5,000,000 shares authorized, 1,480,771 shares issued and outstanding	15	15
Common Stock, \$.01 par value; 90,000,000 shares authorized; 51,649,397 and 51,339,838 shares issued and outstanding in 1999 and 1998, respectively	516	513
Additional paid-in-capital	167,750	167,023
Accumulated deficit	<u>(62,363)</u>	<u>(49,351)</u>
Total stockholders' equity	<u>105,918</u>	<u>118,200</u>
Total liabilities and stockholders' equity	<u>\$ 579,123</u>	<u>\$ 587,517</u>

The accompanying notes are an integral part of these consolidated balance sheets.

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except share data)

	Three Months Ended March 31,	
	1999	1998
Operating revenues	\$ 53,034	\$ 36,694
Cost of services	<u>26,761</u>	<u>16,873</u>
Gross margin	<u>26,273</u>	<u>19,821</u>
Operating expenses:		
Selling, operations, and administration	20,268	13,567
Depreciation and amortization	<u>11,168</u>	<u>6,321</u>
Total operating expenses	<u>31,436</u>	<u>19,888</u>
Operating loss	<u>(5,163)</u>	<u>(67)</u>
Other income (expense):		
Interest expense	(10,463)	(7,499)
Interest income	2,389	2,834
Other income (expense)	<u>225</u>	<u>(2,291)</u>
Total other expense, net	<u>(7,849)</u>	<u>(6,956)</u>
Loss before income taxes and extraordinary item	(13,012)	(7,023)
Income tax benefit	<u>0</u>	<u>(2,388)</u>
Loss before extraordinary item	(13,012)	(4,635)
Extraordinary item – loss on early extinguishment of debt (less related income tax benefit of \$2,133 in 1998)	<u>0</u>	<u>(8,436)</u>
Net loss \$	<u>(13,012)</u>	<u>\$ (13,071)</u>
Basic and diluted net loss per common share:		
Before extraordinary item	\$ (0.25)	\$ (0.09)
Extraordinary item	<u>(0.00)</u>	<u>(0.17)</u>
Net loss	<u>\$ (0.25)</u>	<u>\$ (0.26)</u>
Basic and diluted weighted average common shares outstanding	<u>51,506,644</u>	<u>50,190,058</u>

The accompanying notes are an integral part of these consolidated statements.

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	<u>Three Months Ended March 31,</u>	
	<u>1999</u>	<u>1998</u>
Cash flows from operating activities:		
Net loss	\$ (13,012)	\$ (13,071)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	11,168	6,321
Amortization of bond issue costs	490	359
Deferred income taxes	0	(5,011)
Extraordinary item-loss on early extinguishment of debt	0	10,569
Changes in current operating assets and liabilities:		
Accounts receivable, net	(1,749)	(1,949)
Inventory	(352)	(491)
Prepaid expenses	(750)	(681)
Income tax receivable from ITC Holding	0	373
Accounts payable	(141)	2,749
Accrued interest	3,091	6,662
Unearned revenue	(2,239)	850
Accrued compensation and other accrued liabilities	(298)	3,021
Total adjustments	<u>9,220</u>	<u>22,772</u>
Net cash (used in) provided by operating activities	<u>(3,792)</u>	<u>9,701</u>
Cash flows from investing activities:		
Capital expenditures	(32,963)	(23,026)
Change in accrued construction costs	3,648	984
Change in restricted assets	(320)	(937)
Other	0	13
Net cash used in investing activities	<u>(29,635)</u>	<u>(22,966)</u>
Cash flows from financing activities:		
Proceeds from issuance of 8-7/8% Senior Notes, net of issuance costs	0	155,170
Repayments of long term debt	(173)	0
Proceeds from exercise of common stock options	693	654
Other	34	(191)
Net cash provided by financing activities	<u>554</u>	<u>155,633</u>
(Decrease) increase in cash and cash equivalents	<u>(32,873)</u>	<u>142,368</u>
Cash and cash equivalents at beginning of period	184,167	94,374
Cash and cash equivalents at end of period	<u>\$ 151,294</u>	<u>\$ 236,742</u>
SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	\$ <u>7,247</u>	\$ <u>380</u>
Cash paid (refunds received) for income taxes, net of payments	\$ <u>46</u>	\$ <u>(146)</u>

The accompanying notes are an integral part of these consolidated statements.

ITC^DELTACOM, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION, NATURE OF BUSINESS, AND BASIS OF PRESENTATION

Organization

ITC^DeltaCom, Inc. ("ITC^DeltaCom" or the "Company") was incorporated on March 24, 1997 under the laws of the State of Delaware, as a wholly-owned subsidiary of ITC Holding Company, Inc. ("ITC Holding"), to acquire and operate certain wholly owned subsidiaries of ITC Holding. On July 25, 1997, upon receipt of certain regulatory approvals and certain other consents, ITC Holding completed the reorganization of certain subsidiaries that became wholly owned by the Company.

Effective October 20, 1997, as part of a further reorganization of ITC Holding, ITC Holding transferred all of its assets, other than stock in the Company, and all of its liabilities to another entity and then merged with and into the Company (the "Merger"). The Company was the surviving corporation in the Merger.

Nature of Business

The Company provides integrated voice and data telecommunications services to mid-sized and major regional businesses in the southern United States ("Retail Services") and is a leading regional provider of wholesale long-haul services to other telecommunications companies ("Carriers' Carrier Services"). Retail Services includes local exchange services, long distance services, 800/888 calling, calling card and operator services, Asynchronous Transfer Mode, frame relay, high capacity broadband private line services, as well as Internet, Intranet and Web page hosting and development services, and customer premise equipment sale, installation and repair. In connection with these businesses, the Company owns, operates and manages an extensive fiber optic network in the southern United States.

Basis of Presentation

The accompanying interim consolidated financial statements are unaudited and have been prepared by Company management in accordance with the rules and regulations of the Securities and Exchange Commission (the "Commission"). In the opinion of management, all adjustments considered necessary for the fair presentation of the unaudited, consolidated financial statements have been included, and the unaudited, consolidated financial statements present fairly the financial position and results of operations for the interim periods presented. These unaudited, consolidated financial statements should be read in conjunction with the audited, consolidated financial statements and related footnotes included in the Company's Annual Report on Form 10-K, as filed with the SEC on March 25, 1999 and as amended by the Company's Form 10-K/A filed with the SEC on April 30, 1999 (File No. 0-23252).

2. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long term debt and capital lease obligations at March 31, 1999 and December 31, 1998 consisted of the following (in thousands):

	March 31, 1999	December 31, 1998
11% Senior Notes	\$ 130,000	\$ 130,000
8-7/8% Senior Notes	159,857	159,853
9-3/4% Senior Notes	125,000	125,000
Capital lease obligations at varying interest rates, maturing through June 2006	2,475	2,643

Other	429	438
Total long-term debt and capital leases	417,761	417,934
Less current maturities	(1,069)	(1,075)
Total	<u>\$ 416,692</u>	<u>\$ 416,859</u>

3. COMMITMENTS AND CONTINGENCIES

At March 31, 1999, the Company had entered into agreements with vendors to purchase approximately \$33.9 million of equipment related to the improvement and installation of switches, other network expansion efforts and certain services.

4. SEGMENT REPORTING

As discussed in Note 1, the Company operates in two business segments: Retail Services and Carriers' Carrier Services. Summarized financial data by business segment as of and for the three months ended March 31, 1999 and 1998 are as follows (in thousands):

	1999			
	Carriers' Carrier Segment	Retail Segment	Corporate Segment	Consolidated
Revenues.....	\$ 16,463	\$ 36,571	\$ 0	\$ 53,034
Gross margin.....	13,891	12,382	0	26,273
Selling, operations, and administration	5,140	15,128	0	20,268
Depreciation and amortization.....	6,269	4,878	21	11,168
Other income (expense), net				2,614
Interest expense.....				(10,463)
Loss before income taxes and extraordinary item				<u>\$ (13,012)</u>
Identifiable assets	<u>\$ 354,349</u>	<u>\$ 208,106</u>	<u>\$ 16,668</u>	<u>\$ 579,123</u>
Capital expenditures, net	<u>\$ 14,273</u>	<u>\$ 15,042</u>	<u>\$ 0</u>	<u>\$ 29,315</u>

	1998			
	Carriers' Carrier Segment	Retail Segment	Corporate Segment	Consolidated
Revenues	\$ 11,112	\$ 25,582	\$ 0	\$ 36,694
Gross margin	9,901	9,920	0	19,821
Selling, operations, and administration.....	3,513	10,054	0	13,567
Depreciation and amortization.....	4,106	2,194	21	6,321
Other income (expense), net				543
Interest expense.....				(7,499)
Loss before income taxes and extraordinary item				<u>\$ (7,023)</u>
Identifiable assets.....	<u>\$ 333,379</u>	<u>\$ 126,856</u>	<u>\$ 90,504</u>	<u>\$ 550,739</u>
Capital expenditures, net	<u>\$ 9,062</u>	<u>\$ 12,980</u>	<u>\$ 0</u>	<u>\$ 22,042</u>

5. SUBSEQUENT EVENTS

On April 15, 1999, the Company announced the signing of a definitive agreement to merge with AvData Systems, Inc. ("AvData"), a privately owned data network management solutions provider based in Atlanta, Georgia. As consideration for the merger, the Company expects to pay approximately \$28.6 million in common stock to the owners of AvData, subject to certain adjustments, including up to an additional \$10 million in common stock if certain performance objectives are met. This transaction is expected to close in the second quarter of 1999.

On May 12, 1999, the Company completed an underwritten public offering and sale of 6,037,500 shares of its common stock, yielding net proceeds to the Company of approximately \$120.9 million. The Company intends to use the net proceeds from this offering (i) to fund an accelerated market expansion of the Company's telecommunications business, including expansion of the Company's fiber optic network, expansion of the Company's Internet service provider ("ISP") local telecommunications services and the opening of new sales offices, and (ii) for additional working capital and other general corporate purposes.

On May 12, 1999, the Company also completed a private offering and sale of \$100 million aggregate principal amount of its 4½% Convertible Subordinated Notes due May 16, 2006 (the "Notes"), yielding net proceeds to the Company of approximately \$97.0 million. The Notes bear interest at an annual rate of 4½% payable each May 15 and November 15 beginning November 15, 1999. The Notes are unsecured general obligations of the Company and are convertible into common stock at any time after 90 days following the original issuance of the Notes, at a conversion price of \$26.67 per share, subject to adjustment in certain events. The Company may redeem the Notes or the Company may make the Notes nonconvertible under certain circumstances before May 17, 2002. The Company intends to use the net proceeds from this private offering (i) to fund an accelerated expansion of the Company's fiber optic network and (ii) to purchase switching equipment, inventory and other electronics and network assets related to the Company's fiber optic network and to its provision of primary rate interface connectivity to ISPs.

In May 1999, the Company amended its secured revolving credit facility with NationsBank, N.A. to permit (i) the merger with AvData, (ii) the issuance of the common stock in the May 1999 common stock offering and (iii) the issuance of and payment of interest on the Notes, the redemption of the Notes and the issuance of common stock upon conversion of the Notes.

On May 13, 1999, the Company's shareholders approved an increase in the number of options authorized to be granted under the Company's 1997 Stock Option Plan from 4,815,000 to 7,815,000.

Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q contains certain forward-looking statements that involve risks and uncertainties. In addition, members of the Company's senior management may, from time to time, make certain forward-looking statements concerning the Company's operations, performance and other developments. The Company's actual results could differ materially from those anticipated in such forward-looking statements as a result of various factors. The following analysis should be read in conjunction with the Company's Annual Report on Form 10-K and the financial statements and related notes thereto. The Company has included data with respect to EBITDA, as adjusted, in the following analysis because it is a measure commonly used in the Company's industry. EBITDA, as adjusted, represents earnings before extraordinary item, other income (expense), net interest, income taxes, depreciation and amortization. EBITDA, as adjusted, is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of performance or to cash flows as a measure of liquidity. EBITDA, as adjusted, is not necessarily comparable with similarly titled measures for other companies. See the notes to the unaudited, consolidated financial statements appearing elsewhere in this report for definitions of certain terms used in the following analysis.

Overview

The Company provides integrated voice and data telecommunications services to mid-size and major regional businesses in the southern United States and is a leading regional provider of wholesale long-haul services to other telecommunications companies. In connection with these businesses, the Company owns, operates and manages an extensive fiber optic network in the southern United States. The Company had revenues of \$53.0 million and \$36.7 million for the three months ended March 31, 1999 and 1998, respectively.

The Company provides wholesale long-haul services ("Carriers' Carrier Services") to other telecommunications carriers, including AT&T, Sprint, MCI WorldCom, Qwest, Cable & Wireless, Frontier and IXC. The Company's Carriers' Carrier business generated revenues of \$16.5 million and \$11.1 million for the three months ended March 31, 1999 and 1998, respectively.

The Company also provides integrated retail telecommunications services to mid-sized and major regional businesses in a bundled package tailored to the business customer's specific needs. These services (the "Retail Services") include local exchange services, long distance services, 800/888 calling, calling card and operator services, Asynchronous Transfer Mode ("ATM"), frame relay, high capacity broadband private line services, as well as Internet, Intranet and Web page hosting and development services and customer premise equipment sale, installation and repair. At March 31, 1999, the Company provided Retail Services to over 11,600 business customers in 23 metropolitan areas and had sold approximately 60,000 access lines, of which approximately 45,300 had been installed. The Company intends to provide a full range of Retail Services in a total of approximately 42 metropolitan areas throughout the southern United States over the next two years. The Company's Retail Services business generated revenue of \$36.6 million and \$25.6 million for the three months ended March 31, 1999 and 1998, respectively.

The Company's fiber optic network reaches over 80 points of presence ("POPs") in ten southern states (Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas) and extends approximately 7,800 route miles, of which approximately 4,150 miles are Company-owned and approximately 3,650 are owned and operated principally by three public utilities (Duke Power Company, Florida Power & Light Company and Entergy Technology Company) and managed and marketed by the Company. The Company expects to add approximately 700 owned and operated route miles to its fiber network by the end of 1999 and an additional 1,000 to 1,500 route miles by the end of 2000 through a combination of construction and long-term dark fiber leases. At March 31, 1999, the Company's network included one Nortel DMS-250 and six Nortel DMS-500 voice switches, fifteen Ascend 9000 frame relay switches and seven ATM switches. In addition, the Company has completed physical collocation of switching equipment in 30 BellSouth markets.

During the three months ended March 31, 1999, the Company's operational highlights included the following:

- the Company opened a new branch office in Macon, Georgia, expanding its market coverage to 23 southern markets and 24 branch offices operational at the end of the first quarter, and

- the Company continued its network enhancement efforts with the addition of an ATM and frame relay switch in Greensboro, North Carolina.

The Company continues to increase its market penetration and capacity by opening new sales offices, expanding its fiber network and increasing its data and voice switching capability at a local and regional level.

The Company's continued focus on the growing demand for data products resulted in continued improvements in its quarterly data services revenue, which is a component of Retail Services revenue. Data services revenue for the first quarter of 1999 increased over 200% compared to the first quarter of 1998. The Company's data services initiatives recently accelerated with the signing of a definitive merger agreement with AvData Systems, Inc. ("AvData") of Atlanta, Georgia, on April 15, 1999. AvData provides extensive customer network monitoring and management of data communications networks to business customers throughout the United States. The merger with AvData is expected to be completed in the second quarter of 1999, and is subject to customary closing conditions, including final board approval.

Pursuant to its interconnection agreement (the "Interconnection Agreement") with BellSouth Telecommunications, Inc. ("BellSouth"), the Company continued billing BellSouth during the first three months of 1999 for reciprocal interconnection charges related to the provision by the Company of facilities-based local exchange services. A significant amount of such charges are attributable to call terminations by the Company to customers that are Internet service providers ("ISPs"). BellSouth has stated that it views termination to such ISPs as not included under the reciprocal charge arrangements set forth in the Interconnection Agreement, and has refused to pay compensation for such terminations either to the Company or to other CLECs operating under similar interconnection agreements. The Alabama PSC rendered a ruling in favor of the CLECs on March 4, 1999 and issued an order requiring BellSouth to pay all withheld reciprocal compensation sums within 20 days. The Alabama PSC ruling is now on appeal by BellSouth in federal district court. The Company has filed a similar complaint before the South Carolina PUC. For the three months ended March 31, 1999 such charges to BellSouth amounted to approximately \$3.5 million. The Company recognized approximately \$350,000 of such charges as operating revenues during the first quarter of 1999, which represents amounts BellSouth is currently paying, and reserved against the remaining \$3.2 million of first quarter billings. As of March 31, 1999, the Company had reserved for approximately \$9.8 million of cumulative local interconnection billings.

In April 1999, the Company filed a shelf registration statement with the Securities and Exchange Commission for the issuance from time to time of up to \$300 million in equity securities, including common stock, preferred stock, shares of preferred stock represented by depositary shares, warrants exercisable for common stock, preferred stock or depositary shares, subscription rights evidencing the right to purchase any of these securities and stock purchase contracts to purchase common stock or preferred stock and stock purchase units. In May 1999, the Company completed two new securities offerings. The Company completed an underwritten public offering and sale of 6,037,500 shares of its common stock, yielding net proceeds to the Company of approximately \$120.9 million. The Company also completed a private offering and sale of \$100 million aggregate principal amount of its 4½% convertible subordinated notes due 2006, yielding net proceeds to the Company of approximately \$97.0 million. These proceeds are expected to be used (i) to fund network expansion, primarily in Tennessee and Texas, (ii) to fund expenditures for additional switching facilities, (iii) to accelerate the Company's collocation efforts and (iv) for other general corporate purposes. The Company currently expects capital expenditures will total approximately \$250 to \$300 million through 2000.

Quarterly Statistical Highlights*

Statistical Data:	March 31, 1999	December 31, 1998
Cumulative markets	23	22
Business customers served –		
Retail Services	11,600	10,700
Route miles	7,800	7,800
Collocations	30	30
Voice switches	7	7
ATM switches	7	6
Frame relay switches	15	14
Number of employees	1,170	1,125
Lines sold cumulative	60,000	42,000
Lines installed cumulative	45,300	32,200

*Data rounded except as to markets, collocations and switches.

Historical Results of Operations

The following tables set forth certain unaudited financial information data for the three-month periods ended March 31, 1999 and 1998 for the Carriers' Carrier Services business and the Retail Services business (in thousands).

<u>CARRIERS' CARRIER SERVICES</u>				
Three Months Ended March 31,				
	<u>1999</u>	<u>%</u>	<u>1998</u>	<u>%</u>
Revenues	\$ 16,463	100%	\$ 11,112	100%
Cost of services	<u>2,572</u>	<u>16%</u>	<u>1,211</u>	<u>11%</u>
Gross margin	<u>13,891</u>	<u>84%</u>	<u>9,901</u>	<u>89%</u>
Operating expenses:				
Selling, operations and administrative	5,140	31%	3,513	31%
Depreciation and amortization	<u>6,269</u>	<u>38%</u>	<u>4,106</u>	<u>37%</u>
Total operating expenses	<u>11,409</u>	<u>69%</u>	<u>7,619</u>	<u>68%</u>
Operating income	<u>\$ 2,482</u>	<u>15%</u>	<u>\$ 2,282</u>	<u>21%</u>

<u>RETAIL SERVICES</u>				
Three Months Ended March 31,				
	<u>1999</u>	<u>%</u>	<u>1998</u>	<u>%</u>
Revenues	\$ 36,571	100%	\$ 25,582	100%
Cost of services	<u>24,189</u>	<u>66%</u>	<u>15,662</u>	<u>61%</u>
Gross margin	<u>12,382</u>	<u>34%</u>	<u>9,920</u>	<u>39%</u>
Operating expenses:				
Selling, operations and administrative	15,128	41%	10,054	39%
Depreciation and amortization	<u>4,878</u>	<u>14%</u>	<u>2,194</u>	<u>9%</u>
Total operating expenses	<u>20,006</u>	<u>55%</u>	<u>12,248</u>	<u>48%</u>
Operating loss	<u>\$ (7,624)</u>	<u>(21)%</u>	<u>\$ (2,328)</u>	<u>(9)%</u>

THREE MONTHS ENDED MARCH 31, 1999 COMPARED WITH THREE MONTHS ENDED MARCH 31, 1998

Revenues

Total revenue increased \$16.3 million (44.4%), from \$36.7 million for the three months ended March 31, 1998 to \$53.0 million for the three months ended March 31, 1999. Revenues from Retail Services increased \$11.0 million (43.0%), from \$25.6 million for the three months ended March 31, 1998 to \$36.6 million for the three months ended March 31, 1999. The increase in Retail Services revenue was attributable to (i) a continued increase in the number of business customers, from 8,100 as of March 31, 1998 to over 11,600 as of March 31, 1999, (ii) an increase in revenues from local exchange, local ISP telecommunications services and data services, (iii) growth in long distance minutes of use ("MOUs"), partially offset by a decrease in the rates per MOU, and (iv) continued stability in the rate of revenue loss from lost customers from period to period. The Company continues to experience strong revenue growth rates in its local and data products and expects this trend to continue through the remainder of 1999. The Company expects to see revenue growth in the Retail Services segment in each of the remaining three quarters of 1999 as each of its service offerings are sold to new and existing customers.

Revenues from Carriers' Carrier Services increased \$5.4 million (48.6%), from \$11.1 million for the three months ended March 31, 1998 to \$16.5 million for the three months ended March 31, 1999. The increase in revenue from the Carriers' Carrier Services segment was driven by (i) increases in the customer base as a result of the continued increasing demand for bandwidth, (ii) expansion of owned and operated routes and (iii) growth in commissions derived from the managed, monitored, and marketed routes. The Company expects to experience growth in its Carriers' Carrier Services revenue during the remainder of 1999 as a result of increased demand for bandwidth, offset in part by competitive pricing of its services.

Cost of Services

Total cost of services increased \$9.9 million, from \$16.9 million for the three months ended March 31, 1998 to \$26.8 million for the three months ended March 31, 1999. Cost of services for Retail Services operations increased \$8.5 million, from \$15.7 million for the three months ended March 31, 1998 to \$24.2 million for the three months ended March 31, 1999. The cost of services as a percentage of revenue for Retail Services operations increased to 66% for the three months ended March 31, 1999 compared to 61% for the three months ended March 31, 1998. The increase in the cost of services as a percentage of revenues from first quarter 1998 compared to first quarter 1999 is due primarily to (i) the increase in sales of the local resale product, which generally has lower margins, and (ii) the decrease in long distance rates. The Company expects to experience modest improvements in the cost of service as a percentage of revenues as the Company continues to migrate local and long distance services to its own facilities and as it receives reductions in its off-net costs.

Cost of services for Carriers' Carrier operations increased \$1.4 million, from \$1.2 million for the three months ended March 31, 1998 to \$2.6 million for the three months ended March 31, 1999. The cost of services as a percentage of revenue for Carriers' Carrier operations increased to 16% for the three months ended March 31, 1999 compared to 11% for the three months ended March 31, 1998. The increase in the cost of services as a percentage of revenue is due primarily to the continued migration of several customers to current market rates. The Company believes the pricing pressures will be offset in the future by an increasing demand for bandwidth allowing for continued revenue growth.

Selling, Operations and Administration

Total selling, operations and administration expense increased \$6.7 million, from \$13.6 million (37% as a percentage of revenue) for the three months ended March 31, 1998 to \$20.3 million (38% as a percentage of revenue) for the three months ended March 31, 1999. Selling, operations and administration expense attributable to Retail Services increased \$5.0 million, from \$10.1 million (39% as a percentage of revenue) for the three months ended March 31, 1998 to \$15.1 million (41% as a percentage of revenue) for the three months ended March 31, 1999. The increase in selling, operations and administration expense as a percentage of revenue for the Retail Services segment was attributable to (i) an increase in the number of employees, (ii) continued geographic expansion and (iii) costs associated with the expansion of existing service offerings, primarily local services.

Selling, operations and administration expense attributable to the Carriers' Carrier segment increased \$1.6 million, from \$3.5 million (31% as a percentage of revenue) for the three months ended March 31, 1998 to \$5.1 million (31% as a percentage of revenue) for the three months ended March 31, 1999. The increase in selling, operations, and administration expense for the Carrier's Carrier segment was primarily due to additions of personnel resulting from the geographic expansion of the Company's network. The Company expects that by the fourth quarter of 1999, selling, operations and administration expense measured as a percentage of revenue should begin to decline, although the actual expenditures are expected to increase, as the Company begins to experience a greater return on its investment in personnel and products.

Depreciation and Amortization

Total depreciation and amortization increased \$4.9 million, from \$6.3 million for the three months ended March 31, 1998 to \$11.2 million for the three months ended March 31, 1999. Retail Services accounted for \$2.7 million of the increase, which was primarily related to the installation of new central office and other telecommunications equipment. Carriers' Carrier Services operations accounted for \$2.2 million of the increase, primarily attributable to network expansion. The Company expects depreciation and amortization expense to continue to increase through the remainder of 1999 as the Company adds new switches and network facilities as it expands into new markets.

Interest Expense

Total interest expense increased \$3.0 million, from \$7.5 million for the three months ended March 31, 1998 to \$10.5 million for the three months ended March 31, 1999. The increase in interest expense is due primarily to interest on the Company's 8 7/8% Senior Notes (issued March 1998) and 9 3/4% Senior Notes (issued November 1998). The Company expects interest expense to increase during the remainder of 1999 due to interest on the 8 7/8% Senior Notes, the 9 3/4% Senior Notes and the 4 1/2% Convertible Subordinated Notes (issued May 1999).

Interest Income

Total interest income decreased from \$2.8 million for the three months ended March 31, 1998 to \$2.4 million for the three months ended March 31, 1999, as a result of a decrease in short term investments as the Company expended funds for network facilities.

Other Income (Expense)

In March 1998, upon receipt of the proceeds from the 8 7/8% Senior Notes, the Company reclassified its interest rate swap from a hedge of an anticipated transaction to a trading security resulting in a non-cash charge against earnings of approximately \$2.5 million. This change in classification required ITC^DeltaCom to record the interest rate swap agreement on the consolidated balance sheet at fair market value. The interest rate swap is marked to market on a monthly basis. For the three months ended March 31, 1999 and 1998, the Company recognized income (expense) from the mark to market of the interest rate swap of approximately \$200,000 and \$(2.3) million, respectively.

Extraordinary Loss

ITC^DeltaCom recorded a pre-tax loss of \$10.6 million, or \$8.4 million after tax, related to the redemption of \$70 million of its 11% Senior Notes. The extraordinary loss consisted of a \$7.7 million redemption premium and a \$2.9 million write-off of related debt issuance costs.

EBITDA, as adjusted

EBITDA, as adjusted, decreased \$300,000, from \$6.3 million for the three months ended March 31, 1998 to \$6.0 million for the three months ended March 31, 1999. EBITDA, as adjusted, attributable to Retail Services for the three months ended March 31, 1999 was \$(2.7) million compared to \$(100,000) for the three months ended March 31, 1998. EBITDA, as adjusted, attributable to Retail Services decreased from (0.5)% of revenues for the three months ended March 31, 1998 to (7.5)% of revenues for the three months ended March 31, 1999. The decrease in EBITDA, as adjusted, for the Retail Services was mainly attributable to the Company's increase in its local resale product, which generally has lower margins, and the addition of new personnel. EBITDA, as adjusted, attributable to Carriers' Carrier Services increased \$2.3 million during the three months ended March 31, 1999 as compared to the three months ended March 31, 1998. The increase in EBITDA, as adjusted, for the Carriers' Carrier segment was primarily attributable to the increased demand for bandwidth, partially offset by a migration of some customers to current market rates. The Company expects EBITDA, as adjusted, to increase during the remainder of 1999 as the Company migrates more of its new and existing traffic onto its own facilities and as certain of its markets mature.

Liquidity and Capital Resources

The Company generated net cash from operating activities of \$(3.8) million and \$9.7 million for the three months ended March 31, 1999 and 1998, respectively. Changes in working capital were \$(2.4) million and \$10.5 million for the three months ended March 31, 1999 and 1998, respectively. The change for the three months ended March 31, 1999 resulted primarily from a decrease in accounts payable, unearned revenue and other accrued liabilities and an increase in accounts receivable, inventory, and prepaid expense, partially offset by an increase in accrued interest. For the three months ended March 31, 1998, such changes were primarily due to an increase in accrued interest, accounts payable, unearned revenue, and accrued liabilities, partially offset by an increase in accounts receivable, inventory and prepaid expenses.

Cash used in investing activities was \$29.6 million and \$23.0 million for the three months ended March 31, 1999 and 1998, respectively. The cash used in investing activities in the three months ended March 31, 1999 and 1998 was primarily for the funding of capital expenditures. The Company made capital expenditures of \$29.3

million and \$22.0 million for the three months ended March 31, 1999 and 1998, respectively. Of the capital expenditures made during the three months ended March 31, 1999, \$15.0 million related to Retail Services and \$14.3 million related to Carriers' Carrier Services. Of the \$22.0 million of capital expenditures made during the three months ended March 31, 1998, \$13.0 million related to Retail Services and \$9.0 million related to Carriers' Carrier Services. The increase in cash used in investing activities results from of the Company's commitment to expand its existing network and facilities as it implements its business plan.

Cash provided by financing activities was \$554,000 and \$155.6 million for the three months ended March 31, 1999 and 1998, respectively. Cash provided by financing activities for the three months ended March 31, 1999 consisted primarily of proceeds from the exercise of common stock options. For the three months ended March 31, 1998, cash provided by financing activities consisted primarily of net proceeds of \$155.2 million from the sale of the 8 7/8% Senior Notes.

At March 31, 1999, the Company had entered into agreements with vendors to purchase approximately \$33.9 million of equipment and services, and for the three months ended March 31, 1999, had made capital expenditures of \$29.3 million. The Company currently estimates that its aggregate capital requirements through 2000 will total approximately \$250.0 to \$300.0 million (inclusive of the \$33.9 million in commitments as of March 31, 1999). The Company expects to make substantial capital expenditures thereafter. Capital expenditures through 2000 will be primarily for the following: (i) accelerated expansion of the Company's fiber optic network in Texas, including Austin and San Antonio, and in Tennessee, including Memphis, Nashville, Chattanooga and Knoxville; (ii) continued development and construction of its fiber optic network (including transmission equipment); (iii) continued addition of facilities-based local telephone service to its bundle of integrated telecommunications services, including acquisition and installation of switches and related equipment; (iv) continued addition of switching capacity, electrical equipment and additional collocation space in connection with the expansion of ITC^DeltaCom's ISP local telecommunications services; (v) market expansion and (vi) infrastructure enhancements, principally for information systems. The actual amount and timing of the Company's capital requirements may differ materially from the foregoing estimate as a result of regulatory, technological and competitive developments (including market developments and new opportunities), or in the event the Company decides to make acquisitions or enter into joint ventures and strategic alliances, in the Company's industry.

On April 15, 1999, the Company announced the signing of a definitive agreement to merge with AvData Systems, Inc. ("AvData"), a privately owned data network management solutions provider based in Atlanta, Georgia. As consideration for the merger, the Company expects to pay approximately \$28.6 million in common stock to the owners of AvData, subject to certain adjustments, including up to an additional \$10 million in common stock if certain performance objectives are met. This transaction is expected to close in the second quarter of 1999.

On May 12, 1999, the Company completed an underwritten public offering and sale of 6,037,500 shares of its common stock, yielding net proceeds to the Company of approximately \$120.9 million. The Company intends to use the net proceeds from this offering (i) to fund an accelerated market expansion of the Company's telecommunications business, including expansion of the Company's fiber optic network, expansion of the Company's Internet service provider ("ISP") local telecommunications services and the opening of new sales offices and (ii) for additional working capital and other general corporate purposes.

On May 12, 1999, the Company completed a private offering and sale of \$100 million aggregate principal amount of its 4½% Convertible Subordinated Notes due 2006, yielding net proceeds to the Company of approximately \$97.0 million. The 4½% Convertible Subordinated Notes bear interest at an annual rate of 4½% payable each May 15 and November 15 beginning November 15, 1999. These notes are unsecured general obligations of the Company and are convertible into common stock at any time after 90 days following the original issuance of the notes, at a conversion price of \$26.67 per share, subject to adjustment in certain events. The Company may redeem the notes or the notes may become nonconvertible under certain circumstances before May 17, 2002. The Company intends to use the net proceeds from this private offering (i) to fund an accelerated expansion of the Company's fiber optic network and (ii) to purchase switching equipment, inventory and other electronics and network assets related to the Company's fiber optic network and to its provision of primary rate interface connectivity to ISPs.

In May 1999, the Company amended its secured revolving credit facility with NationsBank, N.A. to permit (i) the merger with AvData, (ii) the issuance of the common stock in the May 1999 common stock offering and (iii) the issuance of and payment of interest on the 4½% Convertible Subordinated Notes, the redemption of those notes and the issuance of common stock upon conversion of those notes. No amounts are outstanding under the credit facility.

As of March 31, 1999, the Company had \$151.3 million of cash and cash equivalents excluding restricted investments. The Company believes that proceeds from the May 1999 common stock offering, proceeds from the May 1999 convertible subordinated notes offering, cash on hand, cash flow from operations and borrowings expected to be available under the Company's secured revolving credit facility (the "Credit Facility"), subject to compliance with applicable covenants, will provide sufficient funds to enable the Company to expand its business as currently planned. In the event that the Company's plans or assumptions change or prove to be inaccurate, the foregoing sources of funds may prove to be insufficient to fund the Company's currently planned growth and operations. In addition, if the Company successfully completes any acquisitions, the Company may be required to seek additional capital sooner than currently anticipated. Additional sources may include equity and debt financing and other financing agreements, such as vendor financing. There can be no assurance that the Company will be able to generate sufficient cash flow from operations or that additional financing arrangements will be available, or if available, that they can be concluded on terms acceptable to the Company. Inability to generate or obtain sufficient funds would result in delay or abandonment of some or all of the Company's development and expansion plans, which could have a material adverse effect on the Company.

Although the Company's liquidity has improved, the Company's level of indebtedness and debt service obligations significantly increased as a result of the Company's issuance of the 11% Senior Notes, the 8 7/8% Senior Notes, the 9 3/4% Senior Notes, and the 4 1/2% Convertible Subordinated Notes. The successful implementation of the Company's strategy, including expansion of its network and obtaining and retaining a significant number of customers, and significant and sustained growth in the Company's cash flow are necessary for the Company to be able to meet its debt service requirements. There can be no assurance that the Company will successfully implement its strategy or that the Company will be able to generate sufficient cash flow from operating activities to improve its earnings before fixed charges, or to meet its debt service obligations and working capital requirements. The ability of the Company to meet its obligations will be dependent upon the future performance of the Company, which will be subject to prevailing economic conditions and to financial, business and other factors.

Year 2000

The Year 2000 Issue. The Year 2000 issue is the result of a computer programming practice first utilized during the 1960s when storage space was very expensive and processing capability was limited. By shortening the year portion of date field entries to two digits rather than four, programmers could save valuable storage space and increase data processing speeds. This method of date entry became the standard method for programmers for mainframes, personal computers, and hardware, including processor chips. Because of this programming convention, software, hardware, or firmware may recognize a date field using "00" as the year 1900 rather than the year 2000. If left uncorrected, this could possibly result in system failures, miscalculations, or errors causing disruptions in software-dependent operations.

ITC^DeltaCom's Program. ITC^DeltaCom has undertaken a comprehensive program to address the Year 2000 issue with respect to the following:

- ITC^DeltaCom's information technology and operating systems (including network switching, customer service, call detail and billing systems)
- ITC^DeltaCom's non-information technology systems (such as buildings, plant, equipment and other infrastructure systems that may contain embedded microcontroller technology)
- the systems of its major vendors, third party network service providers, and other material service providers (insofar as they relate to ITC^DeltaCom's business)
- ITC^DeltaCom's major Carrier's Carrier and Retail Services customers.

As explained below, the program involves:

- a wide-ranging assessment of the Year 2000 problems that may affect ITC^DeltaCom
- the development of remedies to address the problems discovered in the assessment phase
- testing of the remedies
- the preparation of contingency plans to deal with failure scenarios.

These steps will vary to meet the particular needs of a system or Company Division and, in some cases, will overlap. Assessment, for example, is an on-going element of ITC^DeltaCom's Year 2000 program.

Assessment Phase. As part of the assessment phase of this program, ITC^DeltaCom has identified substantially all of the major components of the systems described above. In order to determine the extent to which such systems are vulnerable to the Year 2000 issue, ITC^DeltaCom:

- evaluated its internally developed software applications
- inventoried and assessed the facilities and equipment utilized by ITC^DeltaCom
- contacted substantially all of its significant hardware, software, and other equipment vendors, third party network service providers, other material service providers, and material customers, requesting detailed, written information related to their Year 2000 compliance and the compliance status of the products or services they provide to ITC^DeltaCom, if any.

In addition, ITC^DeltaCom performs a Year 2000 readiness assessment of all potential purchases, leases, or contracts in an effort to prevent the acquisition of a non-compliant system or facility.

To date, ITC^DeltaCom has received and analyzed responses from substantially all of its major vendors and service providers. ITC^DeltaCom has also received responses from approximately one-half of its customers to which inquiries were sent. The responses received included ITC^DeltaCom's major Carrier's Carrier and Retail Services customers.

Based upon the responses received to date, and assuming contradictory responses are not received in the future from the third parties who have been solicited, ITC^DeltaCom believes that its third party computer operating systems dedicated to ITC^DeltaCom's customer service, call detail records and billing systems and its Nortel and Ascend system switches are now Year 2000 compliant. ITC^DeltaCom is in the process of investigating, and intends to closely monitor, the Year 2000 readiness of the three public utilities that own and operate approximately 3,650 miles of ITC^DeltaCom's approximately 7,800-mile fiber optic network. Two of these utilities have indicated that they intend to be Year 2000 compliant by year-end and one has stated that its goal is to be compliant by mid-1999. ITC^DeltaCom has been informed by the financial institutions that provide services to ITC^DeltaCom that they each have undertaken Year 2000 programs and expect to be Year 2000 compliant. ITC^DeltaCom's two largest Carrier's Carrier customers, which together represented approximately 10% of ITC^DeltaCom's consolidated revenues for the three months ended March 31, 1999, have responded that they are on target to have mission-critical systems Year 2000 compliant by the end of the first quarter of 1999 in one instance, and by the end of the second quarter of 1999 in the other instance. Of ITC^DeltaCom's five largest Retail Services customers, which represented an aggregate of approximately 12% of ITC^DeltaCom's consolidated revenues for the three months ended March 31, 1999, four have either informed ITC^DeltaCom or made public disclosures that their mission-critical systems are now Year 2000 compliant.

Remediation and Testing. Based upon the results of ITC^DeltaCom's assessment efforts, ITC^DeltaCom conducted remediation and testing of the at-risk systems identified by the assessment. The activities conducted during this phase were intended to affirmatively address potential Year 2000 problems in ITC^DeltaCom-developed computer software in its information technology and non-information technology systems, and then demonstrate that the remediation was effective when the system is used within normal operating parameters. In this phase, ITC^DeltaCom first evaluated a program application and, if a potential Year 2000 problem was identified, steps were taken to remediate the problem, and the application was then individually tested to confirm that the remediating changes were effective and did not adversely affect the functionality of that application. Similar remediation and testing was undertaken with respect to the hardware and other equipment that operates or is operated by the software. After the individual applications and system components were remediated and tested, integrated testing was conducted to demonstrate functional integrated systems operation.

ITC^DeltaCom has completed the remediation and testing of its internally developed code and the systems that operate and are operated by such software, and ITC^DeltaCom has placed the remediated systems and software into production.

After ITC^DeltaCom completed the internally developed code remediation, it arranged to conduct laboratory-simulated integrated systems testing in an effort to demonstrate Year 2000 compliance of its integrated telecommunications systems as they interface with external systems and the equipment of major vendors, third party network providers, other material service providers and customers. This testing effort covers ITC^DeltaCom's essential network configurations and integration configurations with the most common network components which are utilized by customers and other third parties who interconnect with ITC^DeltaCom's network. As of March 31,

1999, ITC^DeltaCom had completed approximately 65% of the integrated systems testing process. No Year 2000 related failure or errors have been experienced in testing thus far. ITC^DeltaCom expects the integrated systems testing will be completed by June 30, 1999.

Contingency Plans. ITC^DeltaCom continues to develop contingency plans to handle its most reasonably likely worst case Year 2000 scenarios. ITC^DeltaCom anticipates that the bulk of its contingency planning will primarily address potential year 2000 problems due to failures to remediate major systems successfully, and the potential failure of ITC^DeltaCom's interconnecting carriers' and vendors' Year 2000 remediation efforts.

ITC^DeltaCom expects to complete preparation of its contingency plans by the end of the third quarter of 1999. These contingency plans will continue to be refined and updated through the end of 1999 based upon, among other things, responses from third party inquiries. A failure to meet this target could materially impact ITC^DeltaCom's operations.

Program Execution and Oversight. ITC^DeltaCom has established a Year 2000 project office, and ITC^DeltaCom's executive management reviews ITC^DeltaCom's progress on Year 2000 efforts on a monthly basis. The board of directors has designated the Year 2000 oversight role to the Board's Audit Committee, and that Committee receives periodic updates and progress reports on ITC^DeltaCom's Year 2000 preparations.

To execute its Year 2000 program, ITC^DeltaCom is utilizing both internal and external resources to identify, correct, reprogram, and test its systems for Year 2000 compliance. ITC^DeltaCom's use of internal resources to achieve the aims of its Year 2000 program has not had a material adverse effect on its ability to develop new products and services or to maintain and upgrade, if necessary, its existing products and services. ITC^DeltaCom's use of external resources to achieve the aims of its Year 2000 program has not had a material adverse effect on ITC^DeltaCom's operations or earnings.

Costs Related to the Year 2000 Issue. ITC^DeltaCom has incurred, and expects to incur in the future, internal labor as well as consulting and other expenses necessary to prepare its systems for the year 2000. Through the end of 1998, ITC^DeltaCom incurred approximately \$1.1 million in external costs for its Year 2000 program. ITC^DeltaCom incurred approximately \$350,000 during the three months ended March 31, 1999 and currently estimates that it will incur external expenses during 1999 to complete its Year 2000 compliance work, which are not expected to exceed approximately \$1 million (inclusive of the \$350,000 incurred during the three months ended March 31, 1999). These costs, which may vary from the estimates, have been, and will continue to be, expensed as incurred.

Risks Related to the Year 2000 Issue. ITC^DeltaCom is implementing a detailed process to minimize the possibility of service interruptions or adverse effects related to the Year 2000 issue. Although ITC^DeltaCom's Year 2000 efforts are intended to minimize the potential adverse effects of the Year 2000 issue on ITC^DeltaCom's business and operations, the actual effects of the issue cannot and will not be known until the Year 2000. Failure by ITC^DeltaCom and/or its major vendors, third party network service providers, and other material service providers and customers to adequately address their respective Year 2000 issues in a timely manner (insofar as they relate to ITC^DeltaCom's business) could have a material adverse effect on ITC^DeltaCom's business, results of operations, and financial condition.

Like all telecommunication service providers, ITC^DeltaCom's ability to provide service is dependent on its interconnecting carriers and third party vendors, including non-telecommunications related services providers. If these third parties fail to achieve Year 2000 compliance on a timely basis, ITC^DeltaCom could be adversely impacted by their failure.

There is a potential for some revenue erosion caused by reduced telecommunications service demand by both Carrier's Carrier customers and Retail Services customers because of their Year 2000 failures. ITC^DeltaCom has taken steps to raise customer awareness of the Year 2000 issue and to encourage its customers to develop and implement plans to become Year 2000 compliant.

ITC^DeltaCom's failure to correct a material Year 2000 problem could result in an interruption or a failure of ITC^DeltaCom's normal business activities and operations. Such failures could materially and adversely affect ITC^DeltaCom's results of operations, liquidity, and financial condition. At this time, ITC^DeltaCom is unable to determine whether the consequences of Year 2000 failures will have a material impact on ITC^DeltaCom's results

of operations, liquidity, or financial condition due to the general uncertainty inherent with the Year 2000 problem, caused in part from the uncertainty of the interconnecting carriers' and vendors' Year 2000 readiness, as well as uncertainties related to ITC^DeltaCom's ongoing remediation program.

ITC^DeltaCom's Year 2000 program is expected to reduce significantly ITC^DeltaCom's level of uncertainty about the year 2000 problem and, in particular, about the year 2000 compliance and readiness of ITC^DeltaCom's major vendors, third party network service providers, and other material service providers and customers. ITC^DeltaCom believes that, with the internal implementation of remediated information and network systems, its interconnecting carriers and primary vendors Year 2000 readiness, and completion of the Year 2000 compliance plan as scheduled, it will maintain normal operations for all dates after December 31, 1999.

Effects of Accounting Standards

Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, provides guidance on accounting for the costs of computer software developed or obtained for internal use and was adopted January 1, 1999, with no material impact on the consolidated financial statements.

SFAS No. 133, Accounting for Derivative Instruments and for Hedging Activities, establishes accounting and reporting standards requiring that every derivative instrument (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. A company may also implement SFAS No. 133 as of the beginning of any fiscal quarter after June 15, 1998. SFAS No. 133 cannot be applied retroactively. SFAS No. 133 must be applied to (i) derivative instruments and (ii) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997. The Company expects to implement SFAS No. 133 for the fiscal year beginning January 1, 2000, and does not expect the adoption of SFAS No. 133 will have a material affect on its consolidated financial statements.

Inflation

The Company does not believe that inflation has had a significant impact on the Company's consolidated operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

ITC^DeltaCom is exposed to interest rate risk related to its interest rate swap agreement and its borrowings under the Credit Facility. There were no borrowings outstanding under the Credit Facility as of March 31, 1999. Additionally, ITC^DeltaCom is exposed to fair value risk related to its fixed-rate, long-term debt. ITC^DeltaCom's market risk sensitive instruments do not subject ITC^DeltaCom to material market risk exposures.

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 1.1 Placement Agreement, dated May 6, 1999, by and between ITC^DeltaCom, Inc. and Morgan Stanley & Co. Incorporated, for itself and the other several Placement Agents named therein.

- 4.1 Registration Rights Agreement, dated as of May 12, 1999, by and among ITC DeltaCom, Inc. and Morgan Stanley & Co. Incorporated, Credit Suisse First Boston Corporation, First Union Capital Markets Corp. and NationsBanc Montgomery Securities LLC.
- 4.2 Indenture dated as of May 12, 1999, between ITC[®] DeltaCom, Inc. and U.S. Trust Company of Texas, N.A., a national banking corporation, as trustee.
- 4.3 Form of Global Note relating to the 4½% Convertible Subordinated Notes due 2006 (contained in Indenture filed as Exhibit 4.2).
- 10.77.6 Third Amendment, dated as of the 6th day of May, 1999, to the First Amended and Restated Credit Agreement among Interstate FiberNet, Inc., the Lenders (as defined therein) and NationsBank, N.A., successor by merger to NationsBank of Texas, N.A., a national banking association, as Administrative Lender for itself and the Lenders.
- 27.1 Financial Data Schedule

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ITC^DELTACOM, INC.
(Registrant)

Date: May 17, 1999

By: /s/ Foster O. McDonald
Foster O. McDonald
President

Date: May 17, 1999

By: /s/ Douglas A. Shumate
Douglas A. Shumate
Senior Vice President and
Chief Financial Officer

[INSERT EXHIBITS 1.1 THROUGH 10.77.6 HERE]

Financial Data Schedule

This financial data schedule contains summary financial information extracted from the unaudited, consolidated balance sheets of ITC^DeltaCom, Inc. as of March 31, 1999 and the related unaudited, consolidated statements of operations for the three months ended March 31, 1999. This information is qualified in its entirety by reference to such financial statements.

<u>PERIOD-TYPE</u>	<u>3-MOS</u>
Fiscal Year End	Dec. 31, 1999
Period Start	Jan. 01, 1999
Period End	Mar. 31, 1999
Cash	151,294
Securities	0
Receivables	40,730
Allowances	1,455
Inventory	1,987
Current Assets	212,136
PP&E	348,848
Depreciation	64,318
Total Assets	579,123
Current Liabilities	56,095
Bonds	416,692
Preferred Mandatory	0
Preferred	15
Common	516
Other-SE	105,387
Total Liability and Equity	579,123
Sales	53,034
Total Revenues	53,034
CGS	26,761
Total Costs	58,197
Other Income	225
Loss Provision	286
Interest Expense	10,463
Income Pretax	(13,012)
Income Tax	0
Income Continuing	(13,012)
Discontinued	0
Extraordinary	0
Changes	0
Net Income	(13,012)
EPS-Basic	(.25)
EPS-Diluted	(.25)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 1999

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-23253

ITC^DELTACOM, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

58-2301135

(I.R.S. Employer
Identification Number)

1791 O.G. Skinner Drive, West Point, GA

(Address of principal executive offices)

31833

(Zip Code)

Registrant's telephone number, including area code: (706) 385-8000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding at August 10, 1999

Common Stock at \$.01 par value

58,923,072 Shares

PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 1999 (Unaudited)	December 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 341,220	\$ 184,167
Restricted assets	13,491	14,300
Accounts receivable:		
Customer, net of allowance for uncollectible accounts of		
\$1,582 and \$1,260 in 1999 and 1998, respectively	38,512	34,219
Affiliate	3,412	3,307
Inventory	2,157	1,635
Prepaid expenses	1,453	591
Federal income tax receivables	3,939	3,939
Total current assets	<u>404,184</u>	<u>242,158</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>306,276</u>	<u>262,050</u>
OTHER LONG-TERM ASSETS:		
Intangible assets, net of accumulated amortization of		
\$7,594 and \$6,303 in 1999 and 1998, respectively	61,869	63,160
Restricted assets	0	5,735
Other long-term assets	<u>16,531</u>	<u>14,414</u>
Total other long-term assets	<u>78,400</u>	<u>83,309</u>
Total assets	<u>\$ 788,860</u>	<u>\$ 587,517</u>

The accompanying notes are an integral part of these consolidated balance sheets.

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	June 30, 1999 (Unaudited)	December 31, 1998
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable:		
Trade	\$ 13,701	\$ 12,810
Construction	12,274	7,233
Accrued interest	8,358	8,049
Accrued compensation	2,725	2,998
Unearned revenue	10,673	11,457
Other accrued liabilities	8,014	8,418
Current portion of long-term debt and capital lease obligations	1,069	1,075
Total current liabilities	<u>56,814</u>	<u>52,040</u>
LONG-TERM LIABILITIES:		
Deferred income taxes	512	418
Long-term debt and capital lease obligations	<u>516,517</u>	<u>416,859</u>
Total long-term liabilities	<u>517,029</u>	<u>417,277</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.01 par value; \$7.40 liquidation preference; 5,000,000 shares authorized; 1,480,771 shares issued and outstanding in 1999 and 1998	15	15
Common Stock, \$.01 par value; 90,000,000 shares authorized; 58,117,236 and 51,339,838 shares issued and outstanding in 1999 and 1998, respectively	581	513
Additional paid-in-capital	289,720	167,023
Accumulated deficit	<u>(75,299)</u>	<u>(49,351)</u>
Total stockholders' equity	<u>215,017</u>	<u>118,200</u>
 Total liabilities and stockholders' equity	 <u>\$ 788,860</u>	 <u>\$ 587,517</u>

The accompanying notes are an integral part of these consolidated balance sheets.

ITC^DELTACOM, INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)**

(In thousands, except share data)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Operating revenues	\$ 57,376	\$ 40,852	\$ 110,410	\$ 77,546
Cost of services	<u>28,259</u>	<u>19,261</u>	<u>55,020</u>	<u>36,134</u>
Gross margin	<u>29,117</u>	<u>21,591</u>	<u>55,390</u>	<u>41,412</u>
Operating expenses:				
Selling, operations and administration	22,112	15,471	42,380	29,038
Depreciation and amortization	<u>12,310</u>	<u>6,922</u>	<u>23,478</u>	<u>13,243</u>
Total operating expenses	<u>34,422</u>	<u>22,393</u>	<u>65,858</u>	<u>42,281</u>
Operating loss	<u>(5,305)</u>	<u>(802)</u>	<u>(10,468)</u>	<u>(869)</u>
Other income (expense):				
Interest expense	(11,131)	(7,939)	(21,594)	(15,438)
Interest income	3,290	2,520	5,679	5,354
Other income (expense), net	<u>304</u>	<u>66</u>	<u>529</u>	<u>(2,225)</u>
Total other expense, net	<u>(7,537)</u>	<u>(5,353)</u>	<u>(15,386)</u>	<u>(12,309)</u>
Loss before income taxes and extraordinary item	(12,842)	(6,155)	(25,854)	(13,178)
Income tax expense (benefit)	<u>94</u>	<u>(1,307)</u>	<u>94</u>	<u>(3,695)</u>
Loss before extraordinary item	(12,936)	(4,848)	(25,948)	(9,483)
Extraordinary item--loss on early extinguishment of debt (less related income tax benefit of \$2,133 in 1998)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,436)</u>
Net loss	<u>\$ (12,936)</u>	<u>\$ (4,848)</u>	<u>\$ (25,948)</u>	<u>\$ (17,919)</u>
Basic and diluted net loss per common share:				
Before extraordinary item	\$ (0.23)	\$ (0.10)	\$ (0.49)	\$ (0.19)
Extraordinary item	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.16)</u>
Net loss	<u>\$ (0.23)</u>	<u>\$ (0.10)</u>	<u>\$ (0.49)</u>	<u>\$ (0.35)</u>
Basic and diluted weighted average common shares outstanding	<u>55,192,631</u>	<u>50,944,486</u>	<u>53,359,820</u>	<u>50,664,332</u>

The accompanying notes are an integral part of these consolidated statements.

ITC^DELTACOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Six Months Ended June 30,	
	1999	1998
Cash flows from operating activities:		
Net loss	\$ (25,948)	\$ (17,919)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	23,478	13,243
Amortization of bond issue costs	985	757
Deferred income taxes	94	(6,532)
Extraordinary item--loss on early extinguishment of debt	0	10,569
Changes in current operating assets and liabilities:		
Accounts receivable, net	(4,398)	(3,630)
Inventory	(522)	(714)
Prepaid expenses	(862)	(526)
Income tax receivable from ITC Holding	0	1,887
Accounts payable	891	(471)
Accrued interest	309	4,111
Unearned revenue	(784)	1,328
Accrued compensation and other accrued liabilities	(677)	2,748
Total adjustments	18,514	22,770
Net cash (used in) provided by operating activities	(7,434)	4,851
Cash flows from investing activities:		
Capital expenditures	(66,616)	(45,583)
Change in accrued construction costs	5,041	(3,710)
Change in restricted assets	6,544	24,085
Other	29	(385)
Net cash used in investing activities	(55,002)	(25,593)
Cash flows from financing activities:		
Proceeds from issuance of 4 1/2% Notes, net of issuance costs	97,029	-
Proceeds from issuance of 8 7/8% Senior Notes, net of issuance costs	-	155,170
Repayment of 11% Senior Notes	-	(70,000)
Premium paid on early retirement of 11% Senior Notes	-	(7,700)
Repayment of debt assumed in IT Group Communications acquisition	-	(760)
Repayment of other long-term debt and capital lease obligations	(300)	(171)
Proceeds from issuance of common stock, net of offering expenses	120,929	-
Proceeds from exercise of common stock options	1,763	974
Other	68	(154)
Net cash provided by financing activities	219,489	77,359

The accompanying notes are an integral part of these consolidated statements.

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)

	<u>Six Months Ended June 30,</u>	
	<u>1999</u>	<u>1998</u>
Increase in cash and cash equivalents	\$ 157,053	\$ 56,617
Cash and cash equivalents at beginning of period	<u>184,167</u>	<u>94,374</u>
Cash and cash equivalents at end of period	<u>\$ 341,220</u>	<u>\$ 150,991</u>

SUPPLEMENTAL CASH FLOW DISCLOSURES:

Cash paid for interest	<u>\$ 21,005</u>	<u>\$ 10,528</u>
Cash paid (refunds received) for income taxes, net	<u>\$ 68</u>	<u>\$ (1,674)</u>

NONCASH TRANSACTIONS:

IT Group acquisition:		
Note payable and capital lease obligation assumed	<u>\$ 0</u>	<u>\$ 974</u>
Issuance of common stock	<u>\$ 0</u>	<u>\$ 2,793</u>

The accompanying notes are an integral part of these consolidated statements.

ITC^DELTACom, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION, NATURE OF BUSINESS, AND BASIS OF PRESENTATION

Organization

ITC^DeltaCom, Inc. was incorporated on March 24, 1997 under the laws of the State of Delaware, as a wholly-owned subsidiary of ITC Holding Company, Inc., to acquire and operate selected wholly owned subsidiaries of ITC Holding. On July 25, 1997, upon receipt of regulatory approvals and other consents, ITC Holding completed the reorganization of the subsidiaries that became wholly owned by ITC^DeltaCom.

Effective October 20, 1997, as part of a further reorganization of ITC Holding, ITC Holding transferred all of its assets, other than stock in ITC^DeltaCom, and all of its liabilities to another entity and then merged with and into ITC^DeltaCom. ITC^DeltaCom was the surviving corporation in the merger.

Nature of Business

ITC^DeltaCom is a full service provider of integrated voice and data telecommunications services on a retail basis to mid-sized and major regional businesses in the southern United States. These services, which are called its "retail services," include:

- local exchange telephone services;
- long distance services;
- calling card and operator services;
- Asynchronous Transfer Mode, or ATM, frame relay and high capacity broadband private line services;
- Internet, Intranet, web page hosting and development services;
- primary rate interface connectivity and collocation services to Internet service providers, or "ISPs";
- customer premise equipment sale, installation and repair; and
- enhanced services, including conference calling, fax broadcasting and pre-paid calling cards.

ITC^DeltaCom is also a leading regional provider of wholesale long-haul services to other telecommunications companies, which means it sells capacity on its network to, and switches and transports telecommunications traffic for, these companies. These wholesale long haul services are referred to as ITC^DeltaCom's "carriers' carrier services."

In connection with these businesses, ITC^DeltaCom owns, operates and manages an extensive fiber optic network in the southern United States.

Basis of Presentation

The accompanying interim consolidated financial statements are unaudited and have been prepared by us according to the rules and regulations of the SEC. In the opinion of management, all adjustments considered necessary for the fair presentation of the unaudited, consolidated financial statements have been included, and the unaudited, consolidated financial statements present fairly the financial position and results of operations for the interim periods presented. These unaudited, consolidated financial statements should be read in conjunction with the audited, consolidated financial statements and related footnotes included in ITC^DeltaCom's Annual Report on Form 10-K, as filed with the SEC on March 25, 1999 and as amended by ITC^DeltaCom's Form 10-K/A filed with the SEC on April 30, 1999 (File No. 0-23252).

2. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long term debt and capital lease obligations at June 30, 1999 and December 31, 1998 consisted of the following (in thousands):

	June 30, <u>1999</u>	December 31, <u>1998</u>
4 1/2% Notes	\$ 100,000	\$ 0
11% Senior Notes	130,000	130,000
8 7/8% Senior Notes	159,861	159,853
9 3/4% Senior Notes	125,000	125,000
Capital lease obligations at varying interest rates, maturing through June 2006	2,329	2,643
Other	<u>396</u>	<u>438</u>
Total long-term debt and capital lease obligations	517,586	417,934
Less current maturities	<u>(1,069)</u>	<u>(1,075)</u>
Total	<u>\$ 516,517</u>	<u>\$ 416,859</u>

On May 12, 1999, ITC^DeltaCom completed a private offering and sale of \$100 million aggregate principal amount of its 4½% Convertible Subordinated Notes due May 15, 2006 (the "Notes"), yielding net proceeds to ITC^DeltaCom of approximately \$97.0 million. The Notes bear interest at an annual rate of 4½% payable each May 15 and November 15 beginning November 15, 1999. The Notes are unsecured general obligations of ITC^DeltaCom and are convertible into common stock at any time after August 10, 1999, at a conversion price of \$26.67 per share, subject to adjustment in certain events. ITC^DeltaCom may redeem the Notes or make the Notes nonconvertible under certain circumstances before May 17, 2002. ITC^DeltaCom intends to use the net proceeds from this private offering primarily (1) to fund an accelerated expansion of its fiber optic network and (2) to purchase switching equipment, inventory and other electronics and network assets related to its fiber optic network and to its provision of primary rate interface connectivity to ISPs.

In May 1999, ITC^DeltaCom amended its secured revolving credit facility with NationsBank, N.A. to permit (1) the merger with AvData (see Note 7), (2) the issuance of the common stock in the May 1999 common stock offering (see Note 3) and (3) the issuance of and payment of interest on the Notes, the redemption of the Notes and the issuance of common stock upon conversion of the Notes.

3. EQUITY INTERESTS

Public Offering of Common Stock

On May 12, 1999, ITC^DeltaCom completed an underwritten public offering and sale of 6,037,500 shares of its common stock, yielding net proceeds to ITC^DeltaCom of approximately \$120.9 million. ITC^DeltaCom intends to use the net proceeds from this offering (1) to fund an accelerated market expansion of its telecommunications business, including expansion of its fiber optic network, expansion of its ISP local telecommunications services and the opening of new sales offices, and (2) for additional working capital and other general corporate purposes.

Amendment to Employee Stock Option Plan

On May 13, 1999, ITC^DeltaCom's stockholders approved an increase in the number of options authorized to be granted under the ITC^DeltaCom, Inc. 1997 Stock Option Plan from 4,815,000 to 7,815,000.

4. COMMITMENTS AND CONTINGENCIES

At June 30, 1999, ITC^DeltaCom had entered into agreements with vendors to purchase approximately \$40.3 million of equipment related to the improvement and installation of switches, other network expansion efforts and certain services.

5. ACQUISITION

On May 28, 1999, ITC^DeltaCom signed a letter of intent to purchase the business assets of Scientific Telecommunications, Inc., ("SciTel") a privately owned telecommunications equipment provider headquartered in Greenwood, Mississippi. As consideration for the asset purchase, ITC^DeltaCom expects to pay approximately \$2.0 million in common stock to the owners of SciTel. The transaction is expected to close in the third quarter of 1999.

6. SEGMENT REPORTING

As discussed in Note 1, ITC^DeltaCom operates in two business segments: retail services and carriers' carrier services. ITC^DeltaCom also has a corporate segment which has no operations. Identifiable assets of the corporate segment include \$123.7 million of cash and cash equivalents, \$4.2 million other current assets and \$14.4 million of other non-current assets. Summarized financial data by business segment as of and for the six months ended June 30, 1999 and 1998 are as follows (in thousands):

	1999			
	Carriers' Carrier Segment	Retail Segment	Corporate Segment	Consolidated
Operating revenues	\$ 34,629	\$ 75,781	\$ 0	\$ 110,410
Gross margin	29,219	26,171	0	55,390
Selling, operations, and administration	10,553	31,827	0	42,380
Depreciation and amortization	13,049	10,388	41	23,478
Other income, net				6,208
Interest expense				21,594
Loss before income taxes and extraordinary item				\$ 25,854
Identifiable assets	\$ 426,102	\$ 220,456	\$ 142,302	\$ 788,860
Capital expenditures, net	\$ 27,865	\$ 33,710	\$ 0	\$ 61,575

	1998			
	Carriers' Carrier Segment	Retail Segment	Corporate Segment	Consolidated
Operating revenues	\$ 23,370	\$ 54,176	\$ 0	\$ 77,546
Gross margin	20,335	21,077	0	41,412
Selling, operations, and administration	7,070	21,968	0	29,038
Depreciation and amortization	8,711	4,491	41	13,243
Other income, net				3,129
Interest expense				15,438
Loss before income taxes and extraordinary item				\$ 13,178
Identifiable assets	\$ 308,346	\$ 142,020	\$ 9,854	\$ 460,220
Capital expenditures, net	\$ 19,684	\$ 29,609	\$ 0	\$ 49,293

7. SUBSEQUENT EVENT

On July 8, 1999, ITC^DeltaCom completed its merger with AvData Systems, Inc. ("AvData"), a privately owned data network management solutions provider in Atlanta, Georgia. ITC^DeltaCom issued 983,511 shares of common stock to consummate the merger, of which 171,898 shares are being held by a trustee in a two-year escrow to protect against certain contingencies. The transaction is subject to an earnout, which, if certain performance objectives are met, could require ITC^DeltaCom to issue up to an additional 336,730 shares of common stock in 2000.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q contains certain forward-looking statements that involve risks and uncertainties. In addition, members of ITC^DeltaCom's senior management may, from time to time, make forward-looking statements concerning ITC^DeltaCom's operations, performance and other developments. ITC^DeltaCom's actual results could differ materially from those anticipated in such forward-looking statements as a result of various factors. The following analysis should be read in conjunction with ITC^DeltaCom's Annual Report on Form 10-K and the financial statements and related notes thereto. ITC^DeltaCom has included data with respect to EBITDA, as adjusted, in the following analysis because it is a measure commonly used in the company's industry. EBITDA, as adjusted, represents earnings before extraordinary item, net interest, other income (expense), income taxes, depreciation and amortization. EBITDA, as adjusted, is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of performance or to cash flows as a measure of liquidity. EBITDA, as adjusted, is not necessarily comparable with similarly titled measures for other companies.

Unless otherwise indicated, all dollar amounts in the following Management's Discussion and Analysis of Financial Condition and Results of Operations that exceed \$1 million have been rounded to the nearest decimal point and all dollar amounts less than \$1 million have been rounded to the nearest thousand.

Overview

We are a full service provider of integrated voice and data telecommunications services on a retail basis to mid-size and major regional businesses in the southern United States and we are a leading regional provider of wholesale long-haul services to other telecommunications companies. In connection with these businesses, we own, operate and manage an extensive fiber optic network in the southern United States. We had revenues of \$57.4 million and \$40.9 million for the three months ended June 30, 1999 and 1998, respectively, and \$110.4 million and \$77.5 million for the six months ended June 30, 1999 and 1998, respectively.

We provide our wholesale long-haul services, which we refer to as our "carriers' carrier services," to other telecommunications carriers, including AT&T, MCI WorldCom, Sprint, Cable & Wireless, Qwest, Frontier and IXC. Our carriers' carrier services business generated revenues of \$18.2 million and \$12.3 million for the three months ended June 30, 1999 and 1998, respectively, and \$34.6 million and \$23.4 million for the six months ended June 30, 1999 and 1998, respectively.

We also are a full service provider of integrated retail telecommunications services to mid-sized and major regional businesses in a bundled package tailored to the business customer's specific needs. These retail services include:

- local exchange telephone services;
- long distance services;
- calling card and operator services;
- Asynchronous Transfer Mode, or ATM, frame relay and high capacity broadband private line services;
- Internet, Intranet, web page hosting and development services;
- primary rate interface connectivity and collocation services to Internet service providers;
- customer premise equipment sale, installation and repair; and
- enhanced services, including conference calling, fax broadcasting and pre-paid calling cards.

As of June 30, 1999, we provided retail services to approximately 11,250 business customers in 26 metropolitan areas and had sold approximately 74,400 access lines, of which approximately 56,000 had been installed. The implementation backlog was attributable primarily to ISP service installation delays, brought about by both customer installation delays and incumbent local carrier capacity constraints in some markets. We expect service installation issues to be substantially resolved in the third quarter of 1999. We intend to provide a full range of retail services in a total of approximately 42 metropolitan areas throughout the southern United States over the next two years. Our retail services business generated revenue of \$39.2 million and \$28.6 million for the three months ended June 30, 1999 and 1998, respectively, and \$75.8 million and \$54.2 million for the six months ended June 30, 1999 and 1998, respectively.

At June 30, 1999, our fiber optics network reached over 90 points of presence, or "POPs," in the following 11 southern states: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas and Virginia. Our network extended approximately 8,100 route miles at that date, of which approximately 4,400 miles are owned by us

and approximately 3,700 miles are owned and operated principally by three public utilities, Duke Power Company, Florida Power & Light Company and Entergy Technology Company, and managed and marketed by us. We expect to add approximately 500 owned and operated route miles to our fiber network by the end of 1999 and an additional 1,000 to 1,500 route miles by the end of 2000 through a combination of construction and long-term dark fiber leases. At June 30, 1999, our network included seven Nortel DMS-500 and one Nortel DMS-250 voice switches, nineteen Ascend 9000 frame relay switches and ten ATM switches. In addition, we had completed physical collocation of switching equipment in 36 BellSouth markets.

During the three months ended June 30, 1999, our operational highlights included the following:

- we signed a letter of intent to purchase the business assets of Scientific Telecommunications, Inc., headquartered in Greenwood, Mississippi, expanding our product bundle and customer base in Mississippi;
- we completed a public offering of 6,037,500 shares of common stock generating net proceeds of approximately \$120.9 million;
- we completed a private offering of \$100 million aggregate principle amount of 4½% Convertible Subordinated Notes due 2006, generating net proceeds of approximately \$97.0 million;
- we completed the addition of approximately 300 route miles of new fiber network, increasing the total network to approximately 8,100 route miles;
- network enhancements continued with the addition of a Nortel DMS500 switch in Greensboro, North Carolina, as well as four frame relay switches and three ATM switches located throughout the network; and
- we opened branch offices in Tampa and Ft. Lauderdale, Florida, and Greensboro, North Carolina.

Pursuant to our interconnection agreement with BellSouth Telecommunications, Inc., we continued to bill BellSouth during the first six months of 1999 for reciprocal interconnection charges related to our provision of facilities-based local exchange services. A significant amount of these charges are attributable to call terminations by us to customers that are ISPs. BellSouth has stated that it views termination to ISPs as not included under the reciprocal charge arrangements set forth in the BellSouth interconnection agreement, and has refused to pay compensation for such terminations either to us or to other CLECs operating under similar interconnection agreements. The Alabama PSC rendered a ruling in favor of ITC^DeltaCom on March 4, 1999 and issued an order requiring BellSouth to pay all withheld reciprocal compensation sums within 20 days. The Alabama PSC ruling is now on appeal by BellSouth in federal district court. We have filed a similar complaint before the South Carolina PUC seeking a ruling requiring BellSouth to pay the reciprocal compensation with respect to our South Carolina operations. For the three months and six months ended June 30, 1999, these charges to BellSouth amounted to approximately \$4.2 million and \$7.7 million, respectively. We recognized approximately \$583,000 and \$933,000 of these charges as operating revenues during the three months and six months ended June 30, 1999, respectively, representing amounts BellSouth has paid or indicated it will pay, and we reserved against the remaining \$3.6 million and \$6.8 million of billings during the three months and six months ended June 30, 1999, respectively. As of June 30, 1999, we had reserved for approximately \$13.4 million of cumulative local interconnection billings.

On July 1, 1999 our resale and interconnection agreement with BellSouth expired. We are in negotiations with BellSouth to renew the terms of the interconnection agreement. In addition, we have filed for arbitration of certain unresolved issues with the relevant state regulatory authorities in all BellSouth states except for Kentucky. As contemplated by the original interconnection agreement, we will continue to exchange traffic under substantially the same terms on a month-to-month basis until such time as renewal terms, conditions and prices are ordered by a state commission or negotiated by the parties. The new terms, conditions and prices would then be retroactive to July 1, 1999. We expect that a final resolution will be reached during the first quarter of 2000.

On July 8, 1999, we completed our acquisition of AvData Systems, Inc., a privately-owned data network management solutions provider in Atlanta, Georgia. We issued 983,511 shares of our common stock related to this acquisition, of which 171,898 shares are being held in a two-year escrow account to protect against certain contingencies. The transaction is subject to an earnout, which, if certain performance objectives are met, could require us to issue up to an additional 336,730 shares of common stock in 2000. AvData's service offerings include consulting, integration, operation and proactive management of data networks, with 24 x 7 monitoring, trouble shooting, problem resolution and comprehensive network performance reporting for corporate Internet access, remote monitoring of firewall security systems, VSAT Data Networks, frame relay and other data networks. AvData also provides in-depth network performance analysis, as well as design and implementation services for data network deployment. This acquisition is expected to strengthen and enhance our data service offerings.

Also in July, we announced that we would introduce an advanced IP network in the southeast beginning this fall. We expect that the network will employ packet-over-SONET technology delivered via an OC-48 ring-protected backbone. We plan to

deploy Cisco 12000 and 7500 series (gigabit) routers in strategic IP points of presence across the network. As planned, the IP network's core routers will be located in Dallas, TX, Birmingham, AL, Atlanta, GA, Columbia, SC, Orlando, FL, and Gulfport, MS, and will be strategically interconnected at this level with national Internet backbone providers.

Quarterly Statistical Highlights*

	June 30, <u>1999</u>	March 31, <u>1999</u>	December 31, <u>1998</u>
Statistical Data:			
Cumulative markets	26	23	22
Business customers served –			
Retail Services**	11,250	11,000	10,500
Route miles	8,100	7,800	7,800
Collocations	36	30	30
Voice switches	8	7	7
ATM switches	10	7	6
Frame relay switches	19	15	14
Number of employees	1,330	1,170	1,125
Lines sold cumulative	74,400	60,000	42,000
Lines installed cumulative	56,000	45,300	32,200
Lines installed/Lines sold percentage	75%	76%	77%

*Data rounded except as to markets, collocations and switches.

**Restated to reflect the combination of certain customers' multiple accounts into a single customer profile.

Historical Results of Operations

The following tables set forth, in thousands, certain historical data for the three and six month periods ended June 30, 1999 and the three and six month periods ended June 30, 1998 for our carriers' carrier services business and the retail services business:

CARRIERS' CARRIER SERVICES								
	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	1999	%	1998	%	1999	%	1998	%
Revenues	\$ 18,166	100%	\$ 12,258	100%	\$ 34,629	100%	\$ 23,370	100%
Cost of services	<u>2,838</u>	<u>16%</u>	<u>1,823</u>	<u>15%</u>	<u>5,410</u>	<u>16%</u>	<u>3,035</u>	<u>13%</u>
Gross margin	<u>15,328</u>	<u>84%</u>	<u>10,435</u>	<u>85%</u>	<u>29,219</u>	<u>84%</u>	<u>20,335</u>	<u>87%</u>
Operating expenses:								
Selling, operations and administration	5,414	30%	3,558	29%	10,553	30%	7,070	30%
Depreciation and amortization	<u>6,779</u>	<u>37%</u>	<u>4,605</u>	<u>38%</u>	<u>13,049</u>	<u>38%</u>	<u>8,711</u>	<u>37%</u>
Total operating expenses	<u>12,193</u>	<u>67%</u>	<u>8,163</u>	<u>67%</u>	<u>23,602</u>	<u>68%</u>	<u>15,781</u>	<u>67%</u>
Operating income	<u>\$ 3,135</u>	<u>17%</u>	<u>\$ 2,272</u>	<u>18%</u>	<u>\$ 5,617</u>	<u>16%</u>	<u>\$ 4,554</u>	<u>20%</u>
EBITDA, as adjusted	<u>\$ 9,914</u>	<u>54%</u>	<u>\$ 6,877</u>	<u>56%</u>	<u>\$ 18,666</u>	<u>54%</u>	<u>\$ 13,265</u>	<u>57%</u>

RETAIL SERVICES								
	Three Months Ended				Six Months Ended			
	June 30,				June 30,			
	1999	%	1998	%	1999	%	1998	%
Revenues	\$ 39,210	100%	\$ 28,594	100%	\$ 75,781	100%	\$ 54,176	100%
Cost of services	<u>25,421</u>	<u>65%</u>	<u>17,438</u>	<u>61%</u>	<u>49,610</u>	<u>65%</u>	<u>33,099</u>	<u>61%</u>
Gross margin	<u>13,789</u>	<u>35%</u>	<u>11,156</u>	<u>39%</u>	<u>26,171</u>	<u>35%</u>	<u>21,077</u>	<u>39%</u>
Operating expenses:								
Selling, operations and administration	16,698	42%	11,913	42%	31,827	42%	21,968	41%
Depreciation and amortization	<u>5,510</u>	<u>14%</u>	<u>2,297</u>	<u>8%</u>	<u>10,388</u>	<u>14%</u>	<u>4,491</u>	<u>8%</u>
Total operating expenses	<u>22,208</u>	<u>56%</u>	<u>14,210</u>	<u>50%</u>	<u>42,215</u>	<u>56%</u>	<u>26,459</u>	<u>49%</u>
Operating loss	<u>\$ (8,419)</u>	<u>(21)%</u>	<u>\$ (3,054)</u>	<u>(11)%</u>	<u>\$ (16,044)</u>	<u>(21)%</u>	<u>\$ (5,382)</u>	<u>(10)%</u>
EBITDA, as adjusted	<u>\$ (2,209)</u>	<u>(7)%</u>	<u>\$ (757)</u>	<u>(3)%</u>	<u>\$ (5,656)</u>	<u>(7)%</u>	<u>\$ (891)</u>	<u>(2)%</u>

Three Months Ended June 30, 1999 Compared With Three Months Ended June 30, 1998

Revenues

Total revenue increased \$16.5 million, or 40.3%, from \$40.9 million for the three months ended June 30, 1998 to \$57.4 million for the three months ended June 30, 1999. Revenues from our retail services increased \$10.6 million, or 37.1%, from \$28.6 million for the three months ended June 30, 1998 to \$39.2 million for the three months ended June 30, 1999. The increase in retail services revenue was attributable to:

- a continued increase in the number of business customers;
- an increase in revenues from local exchange services, local ISP telecommunications services and data services;
- continued growth in long distance minutes of use, partially offset by a decrease in rates per long distance minutes of use; and
- continued stability in the rate of revenue loss from lost customers from period to period.

We continue to experience strong revenue growth rates in our local and data products and expect this trend to continue through the remainder of 1999.

Revenues from our carriers' carrier services increased \$5.9 million, or 48.0%, from \$12.3 million for the three months ended June 30, 1998 to \$18.2 million for the three months ended June 30, 1999. The increase in revenue from the carriers' carrier services segment was attributable to:

- continued increasing demand for bandwidth, partially offset by pricing pressures on certain network routes;
- expansion of the owned and operated network routes, including the addition of 300 route miles during the second quarter of 1999; and
- growth in commissions derived from the managed, monitored, and marketed network routes.

We expect to continue to experience growth in our carrier's carrier services revenue during the remainder of 1999 as a result of the continued increasing demand for bandwidth, offset in part by competitive pricing of our services.

Cost of Services

Total cost of services increased \$9.0 million, from \$19.3 million for the three months ended June 30, 1998 to \$28.3 million for the three months ended June 30, 1999. Cost of services for our retail services increased \$8.0 million, from \$17.4 million for the three months ended June 30, 1998 to \$25.4 million for the three months ended June 30, 1999. Cost of services as a percentage of revenue for retail services totaled 65% for the three months ended June 30, 1999, compared to 61% for the three months ended June 30, 1998. The increase in cost of services as a percentage of revenue from the second quarter of 1998 compared to the second quarter of 1999 was due primarily to (1) increased sales of the local resale product, which generally has lower margins and (2) decreased long distance rates. We expect to experience improvements in cost of services as a percentage of revenues as we continue to migrate local and long distance services to our own facilities and as we receive reductions in our off-net costs, including incumbent local exchange carrier access revisions effective July 1, 1999, partially offset by the initial costs related to our advanced IP network initiative.

Cost of services attributable to our carriers' carrier services increased \$1.0 million, from \$1.8 million for the three months ended June 30, 1998 to \$2.8 million for the three months ended June 30, 1999. Cost of services as a percentage of revenue for carriers' carrier services increased to 16% for the three months ended June 30, 1999 from 15% for the three months ended June 30, 1998. The increase in the cost of services as a percentage of revenue was due primarily to rate adjustments for customers to current market rates. We believe these pricing pressures will be offset in the future by an increasing demand for bandwidth allowing for continued revenue growth.

Selling, Operations and Administration Expense

Total selling, operations and administration expense increased \$6.6 million, from \$15.5 million, or 37.9% as a percentage of revenue, for the three months ended June 30, 1998 to \$22.1 million, or 38.5% as a percentage of revenue, for the three months ended June 30, 1999. Selling, operations and administration expense attributable to retail services increased \$4.8 million, from

\$11.9 million, or 41.7% as a percentage of revenue, for the three months ended June 30, 1998 to \$16.7 million, or 42.6% as a percentage of revenue, for the three months ended June 30, 1999. The increase in selling, operations and administration expense as a percentage of revenue for the retail services segment was attributable to:

- an increase in the number of employees, primarily sales, customer support and provisioning;
- continued geographic expansion, including the addition of three new sales offices during the second quarter of 1999; and
- costs associated with the expansion of existing service offerings, primarily local services.

We expect that selling, operations and administration expense as a percentage of revenue for our retail services could increase slightly in the third quarter as we incur costs associated with our advanced IP network initiative, expand our markets for customer premise equipment and integrate AvData into our organization.

Selling, operations and administration expense attributable to our carriers' carrier services increased \$1.8 million, from \$3.6 million, or 29.0% as a percentage of revenue, for the three months ended June 30, 1998 to \$5.4 million, or 29.8% as a percentage of revenue, for the three months ended June 30, 1999. The increase in selling, operations, and administration expense for the carriers' carrier segment was primarily due to additions of personnel resulting from the geographic expansion of our network and an increase in the percentage allocation of overhead costs.

Depreciation and Amortization

Total depreciation and amortization expense increased \$5.4 million, from \$6.9 million for the three months ended June 30, 1998 to \$12.3 million for the three months ended June 30, 1999. Retail services operations accounted for \$3.2 million of the increase, which was primarily related to installation of new equipment. Carriers' carrier services operations accounted for \$2.2 million of the increase, which was primarily due to the continued expansion of the fiber optic network operations. We expect depreciation and amortization to continue to increase during the remainder of 1999 as we add new switches and network facilities and expand into new markets.

Interest Expense

Total interest expense increased \$3.2 million, from \$7.9 million for the three months ended June 30, 1998 to \$11.1 million for the three months ended June 30, 1999. The \$3.2 million increase in interest expense was primarily attributable to the interest on our 9 ¾% Senior Notes, which we issued November 1998, and our 4 ½% Convertible Subordinated Notes, which we issued May 1999.

Interest Income

Total interest income increased \$800,000, from \$2.5 million for the three months ended June 30, 1998 to \$3.3 million for the three months ended June 30, 1999 as a result of the investment of excess cash balances.

Other Income

In March 1998, we reclassified our interest rate swap from a hedge of an anticipated transaction to a trading security resulting in a non-cash charge against earnings of approximately \$2.5 million. This change in classification required us to record the interest rate swap agreement on the consolidated balance sheet at fair market value. The interest rate swap agreement is marked to market on a monthly basis. For the three months ended June 30, 1999 and 1998, we recognized income from the mark-to-market of the interest rate swap of approximately \$304,000 and \$66,000, respectively.

EBITDA, as adjusted

EBITDA, as adjusted, increased \$900,000, from \$6.1 million for the three months ended June 30, 1998 to \$7.0 million for the three months ended June 30, 1999. EBITDA, as adjusted, attributable to our retail services for the three months ended June 30, 1999 was \$(2.9) million compared to \$(800,000) for the three months ended June 30, 1998. EBITDA, as adjusted, attributable to retail services decreased from (2.6)% of revenues for the three months ended June 30, 1998 to (7.4)% of revenues for the three months ended June 30, 1999. The decrease in EBITDA, as adjusted, for the retail services was primarily due to the increase in our local resale product, which generally has lower margins, and the addition of new personnel to support both the geographic and product expansion efforts. EBITDA, as adjusted, attributable to our carriers' carrier services increased \$3.0 million, from \$6.9

million for the three months ended June 30, 1998 to \$9.9 million for the three months ended June 30, 1999. The increase in EBITDA, as adjusted, for the carriers' carrier segment was primarily attributable to the continued increase in the demand for bandwidth, partially offset by rate adjustments for customers to current market rates. Although we expect to continue to experience pricing pressures as well as incur initial costs on our advanced IP network initiative, we expect EBITDA, as adjusted, to increase during the remainder of 1999 as we benefit from the migration of more of our new and existing traffic onto our own facilities and as certain of our markets mature.

Six Months Ended June 30, 1999 Compared With Six Months Ended June 30, 1998

Revenues

Total revenue increased \$32.9 million (42.5%), from \$77.5 million for the six months ended June 30, 1998 to \$110.4 million for the six months ended June 30, 1999. Revenues from our retail services increased \$21.6 million (39.9%), from \$54.2 million for the six months ended June 30, 1998 to \$75.8 million for the six months ended June 30, 1999. The increase in retail services revenue was attributable to:

- a continued increase in the number of business customers, from 9,600 as of June 30, 1998 to over 11,250 as of June 30, 1999;
- an increase in revenues from local exchange services, local ISP telecommunications services and data services;
- growth in long distance minutes of use, partially offset by a decrease in the rates per long distance minutes of use; and
- continued stability in the rate of revenue loss from lost customers from period to period.

We continue to experience strong revenue growth rates in our local and data products and expect this trend to continue through the remainder of 1999.

Revenues from our carriers' carrier services increased \$11.2 million (47.9%), from \$23.4 million for the six months ended June 30, 1998 to \$34.6 million for the six months ended June 30, 1999. The increase in revenue from the carriers' carrier services segment was attributable to:

- increasing demand for bandwidth;
- expansion of the owned and operated routes; and
- growth in commissions derived from the managed, monitored, and marketed routes.

We expect to experience continued growth in our carrier's carrier services revenue during the remainder of 1999 as a result of a continuing increasing demand for bandwidth, offset in part by the competitive pricing of our services.

Cost of Services

Total cost of services increased \$18.9 million, from \$36.1 million for the six months ended June 30, 1998 to \$55.0 million for the six months ended June 30, 1999. Cost of services for our retail services increased \$16.5 million, from \$33.1 million for the six months ended June 30, 1998 to \$49.6 million for the six months ended June 30, 1999. Cost of services as a percentage of revenue for retail services increased slightly to 65% for the six months ended June 30, 1999 from 61% for the six months ended June 30, 1998. The increase in cost of services as a percentage of revenue from the first six months of 1998 compared to the first six months of 1999 was due primarily to (1) the increase in sales of the local resale product, which generally has lower margins and (2) the decrease in long distance rates. We expect to experience modest improvements in the cost of service as a percentage of revenues as we continue to migrate local and long distance services to our own facilities and as we receive reductions in our off-net costs, including incumbent local exchange carrier access revisions effective July 1, 1999, partially offset by the initial costs related to our advanced IP network initiative.

Cost of services attributable to our carriers' carrier services increased \$2.4 million, from \$3.0 million for the six months ended June 30, 1998 to \$5.4 million for the six months ended June 30, 1999. Cost of services as a percentage of revenue for carriers' carrier services increased slightly to 16% for the six months ended June 30, 1999 from 13% for the six months ended June 30, 1998. The increase in the cost of services as a percentage of revenue was due primarily to rate adjustments for customers to current market rates. We believe the pricing pressures will be offset in the future by an increasing demand for bandwidth allowing for continued revenue growth.

Selling, Operations and Administration Expense

Total selling, operations and administration expense increased \$13.4 million, from \$29.0 million, or 37.4% as a percentage of revenue, for the six months ended June 30, 1998 to \$42.4 million, or 38.4% as a percentage of revenue, for the six months ended June 30, 1999. Selling, operations and administration expense attributable to our retail services increased \$9.8 million, from \$22.0 million for the six months ended June 30, 1998 to \$31.8 million for the six months ended June 30, 1999, which represented an increase from 41% to 42% as a percentage of revenue. The increase in selling, operations and administration expense as a percentage of revenue for the retail services segment was attributable to:

- an increase in the number of employees;
- continued geographic expansion; and
- costs associated with the expansion of existing service offerings, primarily local services.

We expect that selling, operations and administration expense as a percentage of revenue for our retail services could increase slightly in the third quarter as we incur costs associated with our advanced IP network initiative, expand our markets for customer premise equipment and integrate AvData into our organization.

Selling, operations and administration expense attributable to our carriers' carrier services increased \$3.5 million, from \$7.1 million for the six months ended June 30, 1998 to \$10.6 million for the six months ended June 30, 1999. Selling, operations and administration expense as a percentage of revenue remained unchanged at 30% for the six months ended June 30, 1999 and 1998. The increase in selling, operations, and administration expense for the carriers' carrier segment was primarily due to additions of personnel resulting from the geographic expansion of our network and an increase in the percentage allocation of overhead costs.

Depreciation and Amortization

Total depreciation and amortization expense increased \$10.3 million, from \$13.2 million for the six months ended June 30, 1998 to \$23.5 million for the six months ended June 30, 1999. Retail services accounted for \$5.9 million of the increase, which was primarily related to the installation of new central office and other telecommunications equipment. Carriers' carrier services accounted for \$4.4 million of the increase, which was primarily attributable to network expansion. We expect depreciation and amortization expense to continue to increase through the remainder of 1999 as we add new switches and network facilities and expand into new markets.

Interest Expense

Total interest expense increased \$6.2 million, from \$15.4 million for the six months ended June 30, 1998 to \$21.6 million for the six months ended June 30, 1999. The \$6.2 million increase was attributable to interest on our 8 7/8% Senior Notes, which we issued March 1998, our 9 3/4% Senior Notes, which we issued November 1998, and our 4 1/2% Convertible Subordinated Notes, which we issued May 1999. We expect interest expense to increase during the remainder of 1999 compared to 1998 due to interest on the 9 3/4% Senior Notes and the 4 1/2% Convertible Subordinated Notes.

Interest Income

Total interest income increased \$300,000, from \$5.4 million for the six months ended June 30, 1998 to \$5.7 million for the six months ended June 30, 1999 as a result of the investment of excess cash balances.

Other Income (Expense)

In March 1998, we reclassified our interest rate swap from a hedge of an anticipated transaction to a trading security resulting in a non-cash charge against earnings of approximately \$2.5 million. This change in classification required us to record the interest rate swap agreement on the consolidated balance sheet at fair market value. The interest rate swap agreement is marked to market on a monthly basis. For the six months ended June 30, 1999 and 1998, we recognized income (expense) from the mark-to-market of the interest rate swap of approximately \$529,000 and \$(2.2) million, respectively.

Extraordinary Loss

During the six months ended June 30, 1998, we incurred a pre-tax extraordinary loss of \$10.6 million, or \$8.4 million after tax, related to the redemption of \$70 million of our 11% Senior Notes. The extraordinary loss consisted of a \$7.7 million redemption premium and a \$2.9 million write-off of related debt-issuance costs.

EBITDA, as adjusted

EBITDA, as adjusted, increased \$600,000, from \$12.4 million for the six months ended June 30, 1998 to \$13.0 million for the six months ended June 30, 1999. EBITDA, as adjusted, attributable to our retail services for the six months ended June 30, 1999 was \$(5.7) million compared to \$(900,000) for the six months ended June 30, 1998. EBITDA, as adjusted, attributable to retail services decreased from (1.6)% of revenues for the six months ended June 30, 1998 to (7.5)% of revenues for the six months ended June 30, 1999. The decrease in EBITDA, as adjusted, for the retail services was primarily due to increases in local services provided on a resale basis, which generally has lower margins, an increase in the costs associated with the expansion of new sales offices and the employment of additional support personnel to position this segment for growth and expansion. EBITDA, as adjusted, attributable to our carriers' carrier services increased \$5.4 million, from \$13.3 million for the six months ended June 30, 1998 to \$18.7 million for the six months ended June 30, 1999. The increase in EBITDA, as adjusted, for the carriers' carrier segment was primarily attributable to the increased demand for bandwidth, partially offset by rate adjustments for customers to current market rates. We expect EBITDA, as adjusted, to increase during the remainder of 1999 as we migrate more of our new and existing traffic onto our own facilities, as the demand in our carriers' carrier segment for bandwidth remains strong and as certain of our markets mature, partially offset by the initial costs of our advanced IP network initiative and pricing pressures on certain products.

Liquidity and Capital Resources

We generated net cash from operating activities of \$(7.4) million and \$4.9 million for the six months ended June 30, 1999 and 1998, respectively. Changes in working capital were \$(6.0) million and \$4.7 million for the six months ended June 30, 1999 and 1998, respectively. The change for the six months ended June 30, 1999 resulted primarily from a decrease in unearned revenue and other accrued liabilities and an increase in accounts receivable, inventory, and other prepaid expenses, partially offset by an increase in accounts payable and accrued interest. For the six months ended June 30, 1998 such changes were primarily due to an increase in accrued interest, unearned revenue, other accrued liabilities and a decrease in income tax refund receivable offset by increases in accounts receivable, inventory and prepaid expenses and a decrease in accounts payable.

Cash used for investing activities was \$55.0 million and \$25.6 million for the six months ended June 30, 1999 and 1998, respectively. The cash used in investing activities in the six months ended June 30, 1999 and 1998 was primarily for the funding of capital expenditures. We made net capital expenditures of \$61.6 million and \$49.3 million for the six months ended June 30, 1999 and 1998, respectively. Of the \$61.6 million of net capital expenditures for the six months ended June 30, 1999, \$27.9 million related to carriers' carrier services and \$33.7 million related to retail services. Of the \$49.3 million of net capital expenditures for the six months ended June 30, 1998, \$19.7 million related to carriers' carrier services and \$29.6 million related to retail services. The increase in cash used in investing activities results from our commitment to expand the existing network and facilities as we implement our business plan.

Cash provided by financing activities was \$219.5 million and \$77.4 million for the six months ended June 30, 1999 and 1998, respectively. Cash provided by financing activities for the six months ended June 30, 1999 consisted primarily of net proceeds of \$97.0 million from the sale of the 4 1/2% Convertible Subordinated Notes and \$120.9 million from the issuance of common stock. Cash provided by financing activities for the six months ended June 30, 1998 consisted primarily of net proceeds of \$155.2 million from the sale of the 8 7/8% Senior Notes, less \$70.0 million repayment of principal on the 11% Senior Notes and \$7.7 million premium payment on the early extinguishment of debt.

On May 12, 1999, we completed an underwritten public offering and sale of 6,037,500 shares of our common stock, yielding net proceeds to us of approximately \$120.9 million. We intend to use the net proceeds from this offering (1) to fund an accelerated market expansion of our telecommunications business, including expansion of our fiber optic network, expansion of our local ISP telecommunications services and the opening of new sales offices and (2) for additional working capital and other general corporate purposes.

On May 12, 1999, we completed a private offering and sale of \$100 million aggregate principal amount of our 4 1/2% Convertible Subordinated Notes due 2006, yielding net proceeds to us of approximately \$97.0 million. The 4 1/2% Convertible Subordinated Notes bear interest at an annual rate of 4 1/2% payable each May 15 and November 15 beginning November 15, 1999. These notes are unsecured general obligations of ITC^DeltaCom and are convertible into common stock at any time after

August 10, 1999, at a conversion price of \$26.67 per share, subject to adjustment in certain events. We may redeem the notes or make the notes nonconvertible under certain circumstances before May 17, 2002. We intend to use the net proceeds from this private offering (1) to fund an accelerated expansion of our fiber optic network and (2) to purchase switching equipment, inventory, and other electronics and network assets related to our fiber optic network and to our provision of primary rate interface connectivity to ISPs.

In May 1999, we amended our secured revolving credit facility with NationsBank, N.A. to permit (1) the merger with AvData, (2) the issuance of the common stock in the May 1999 common stock offering and (3) the issuance of and payment of interest on the 4 ½% Convertible Subordinated Notes, the redemption of those notes and the issuance of common stock upon conversion of those notes. No amounts are outstanding under the credit facility.

At June 30, 1999, we had entered into agreements with vendors to purchase approximately \$40.3 million of equipment and services, and for the six months ended June 30, 1999, had made net capital expenditures of \$61.6 million. We currently estimate that our aggregate capital requirements through 2000 will total approximately \$250.0 to \$300.0 million (inclusive of the \$40.3 million in commitments as of June 30, 1999). We expect to make substantial capital expenditures thereafter. Capital expenditures through 2000 will be primarily for the following:

- accelerated expansion of our fiber optic network in Texas, including Austin and San Antonio, and in Tennessee, including Memphis, Nashville, Chattanooga and Knoxville;
- continued addition of facilities-based local telephone service to our bundle of integrated telecommunications services, including acquisition and installation of switches and related equipment;
- continued addition of switching capacity, electrical equipment and additional collocation space in connection with the expansion of our ISP local telecommunications services;
- market expansion; and
- infrastructure enhancements, principally for information systems.

The actual amount and timing of our capital requirements may differ materially from the foregoing estimate as a result of regulatory, technological and competitive developments (including market developments and new opportunities) in our industry, or if we decide to make acquisitions or enter into joint ventures and strategic alliances.

On July 8, 1999, we completed our merger with AvData Systems, Inc., a privately owned data network management solutions provider in Atlanta, Georgia. We issued 983,511 shares of our common stock to consummate the merger, of which 171,898 shares are being held by a trustee in escrow for two years to protect against certain contingencies. The transaction is subject to an earnout, which, if certain performance objectives are met, could require us to issue up to an additional 336,730 shares of common stock in 2000.

As of June 30, 1999, we had \$341.2 million of cash and cash equivalents excluding restricted investments. We believe that proceeds from the May 1999 common stock offering, proceeds from the May 1999 convertible subordinated notes offering, cash on hand and cash flow from operations will provide sufficient funds to enable us to expand our business as currently planned. In addition, subject to compliance with applicable covenants in the credit agreement, we may borrow funds under our credit facility to supplement the capital we need to expand our business as currently planned. In the event that our plans or assumptions change or prove to be inaccurate, the foregoing sources of funds may prove to be insufficient to fund our currently planned growth and operations. In addition, if we successfully complete any acquisitions, we may be required to seek additional capital sooner than currently anticipated. Additional sources may include equity and debt financing and other financing agreements, such as vendor financing. We cannot assure you that we will be able to generate sufficient cash flow from operations or that additional financing arrangements will be available or, if available, that they can be concluded on terms acceptable to us. Our inability to generate or obtain sufficient funds would result in delay or abandonment of some or all of our development and expansion plans, which could have a material adverse effect on us.

Although our liquidity has improved, our level of indebtedness and debt service obligations significantly increased as a result of our issuance of the 11% Senior Notes, the 8-7/8% Senior Notes, the 9 ¾% Senior Notes, and the 4 ½% Convertible Subordinated Notes. The successful implementation of our strategy, including expansion of our network and obtaining and retaining a significant number of customers, and significant and sustained growth in our cash flow are necessary for us to be able to meet our debt service requirements. We cannot assure you that we will successfully implement our strategy or that we will be able to generate sufficient cash flow from operating activities to improve our earnings before fixed charges, or to meet our debt service obligations and working capital requirements. Our ability to meet our obligations will be dependent upon our future performance, which will be subject to prevailing economic conditions and to financial, business and other factors.

Year 2000

The Year 2000 Issue. The Year 2000 issue is the result of a computer programming practice first utilized during the 1960s when storage space was very expensive and processing capability was limited. By shortening the year portion of date field entries to two digits rather than four, programmers could save valuable storage space and increase data processing speeds. This method of date entry became the standard method for programmers for mainframes, personal computers, and hardware, including processor chips. Because of this programming convention, software, hardware, or firmware may recognize a date field using "00" as the year 1900 rather than the year 2000. If left uncorrected, this could possibly result in system failures, miscalculations, or errors causing disruptions in software-dependent operations.

ITC^DeltaCom's Program. We have undertaken a comprehensive program to address the Year 2000 issue with respect to the following:

- our information technology and operating systems, including network switching, customer service, call detail and billing systems;
- our non-information technology systems, such as buildings, plant, equipment and other infrastructure systems that may contain embedded microcontroller technology;
- the systems of our major vendors, third party network service providers, and other material service providers insofar as they relate to our business; and
- our major carrier's carrier and retail services customers.

As explained below, the program involves:

- a wide-ranging assessment of the potential Year 2000 issues that may affect us;
- the development of remedies to address the concerns discovered in the assessment phase;
- testing of the remedies; and
- the preparation of contingency plans to deal with potential failure scenarios.

These steps will vary to meet the particular needs of a system or company division and, in some cases, will overlap. Assessment, for example, is an on-going element of our Year 2000 program.

Assessment Phase. As part of the assessment phase of this program, we have identified substantially all of the major components of the systems described above. In order to determine the extent to which such systems are vulnerable to the Year 2000 issue, we:

- evaluated our internally developed software applications;
- inventoried and assessed our facilities and equipment; and
- contacted substantially all of our significant hardware, software, and other equipment vendors, third party network service providers, other material service providers, and material customers, requesting detailed, written information related to their Year 2000 compliance and the compliance status of the products or services they provide to us, if any.

In addition, we perform a Year 2000 readiness assessment of all potential purchases, leases, or contracts in an effort to prevent the acquisition of a non-compliant system or facility.

To date, we have received and analyzed responses from substantially all of our major vendors and service providers. We have also received responses from approximately four-fifths of our customers to which inquiries were sent. The responses received included our major carrier's carrier and retail services customers.

Based upon the responses received to date, and assuming contradictory responses are not received in the future from the third parties who have been solicited, we believe that our third party manufactured computer operating systems dedicated to our customer service, call detail records and billing systems and our Nortel and Ascend system switches are now Year 2000 compliant. We are in the process of investigating, and intend to closely monitor, the Year 2000 readiness of the three public utilities that own and operate approximately 3,700 miles of our approximately 8,100-mile fiber optic network. These three utilities have indicated that they are Year 2000 compliant. We have been informed by the financial institutions that provide services to us that they each have undertaken Year 2000 programs and expect to be Year 2000 compliant. Of our two largest carrier's carrier customers, which together represented approximately 11.4% of our consolidated revenues for the six months ended June 30, 1999, one has

responded that it is Year 2000 compliant and the other has responded that it plans to have its mission-critical systems compliant by the end of the third quarter of 1999. Of our five largest retail services customers, which represented an aggregate of approximately 12.2% of our consolidated revenues for the six months ended June 30, 1999, four have either informed ITC^DeltaCom or made public disclosures that their mission-critical systems are now Year 2000 compliant.

Remediation and Testing. Based upon the results of our assessment efforts, we conducted remediation and testing of the at-risk systems identified by the assessment. The activities conducted during this phase were intended to affirmatively address potential Year 2000 problems in our internally developed computer software in our information technology and non-information technology systems, and then demonstrate that the remediation was effective when the system is used within normal operating parameters. In this phase, we first evaluated a program application and, if a potential Year 2000 problem was identified, steps were taken to remediate the problem, and the application was then individually tested to confirm that the remediating changes were effective and did not adversely affect the functionality of that application. Similar remediation and testing was undertaken with respect to the hardware and other equipment that operates or is operated by the software. After the individual applications and system components were remediated and tested, integrated testing was conducted to demonstrate functional integrated systems operation.

We have completed the remediation and testing of our internally developed code and the systems that operate and are operated by such software, and we have placed the remediated systems and software into production.

After we completed the internally developed code remediation, we arranged to conduct laboratory-simulated integrated systems testing in an effort to demonstrate Year 2000 compliance of our integrated telecommunications systems currently in use as they interface with external systems and the equipment of major vendors, third party network providers, other material service providers and customers. This testing effort covered our essential network configurations and integration configurations with the most common network components, which are utilized by customers and other third parties that interconnect with our network. We have completed the integrated systems testing process. No Year 2000 related failure or errors were experienced in testing.

Contingency Plans. We continue to develop contingency plans to handle potential Year 2000-related failure scenarios. We anticipate that the bulk of our contingency planning will primarily address potential year 2000 problems due to the potential failure of our interconnecting carriers' and vendors' Year 2000 remediation efforts and our failure and/or the failure of our third party suppliers to remediate major systems successfully.

We expect to complete preparation of our contingency plans by the end of the third quarter of 1999. These contingency plans will continue to be refined and updated through the end of 1999 based upon, among other things, responses from third party inquiries. A failure to meet this target could materially impact our operations.

Program Execution and Oversight. We have established a Year 2000 project office, and our executive management reviews our progress on Year 2000 efforts on a monthly basis. The board of directors has designated the Year 2000 oversight role to the Board's Audit Committee, and that Committee receives periodic updates and progress reports on our Year 2000 preparations.

To execute our Year 2000 program, we are utilizing both internal and external resources to identify, correct, reprogram, and test our systems for Year 2000 compliance. Our use of internal resources to achieve the aims of our Year 2000 program has not had a material adverse effect on our ability to develop new products and services or to maintain and upgrade, if necessary, our existing products and services. Our use of external resources to achieve the aims of our Year 2000 program has not had a material adverse effect on our operations or earnings.

Costs Related to the Year 2000 Issue. We have incurred, and expect to incur in the future, internal labor as well as consulting and other expenses necessary to prepare our systems for the Year 2000. Through the end of 1998, we incurred approximately \$1.1 million in external costs for our Year 2000 program. We incurred approximately \$552,000 during the six months ended June 30, 1999 and currently estimate that we will incur external expenses during 1999 to complete our Year 2000 compliance work which we do not expect to exceed approximately \$450,000. The actual costs, which may vary from our estimates, have been, and will continue to be, expensed as incurred.

Risks Related to the Year 2000 Issue. We have been implementing a detailed program to minimize the possibility of service interruptions or adverse effects related to the Year 2000 issue. Although our Year 2000 efforts are intended to minimize the potential adverse effects of the Year 2000 issue on our business and operations, the actual effects of the issue cannot and will not be known until the Year 2000. Failure by us and/or our major vendors, third party network service providers, and other

PART II

OTHER INFORMATION

Item 4. *Submission of Matters to a Vote of Security Holders*

The Annual Meeting of Stockholders of ITC^DeltaCom was held on May 13, 1999. All of the proposals presented for stockholder consideration at the Annual Meeting were approved. The following is a tabulation of the voting on each proposal presented at the Annual Meeting and a listing of the directors whose term of office as a director continued after the meeting. Each share of common stock voted on the proposals set forth below had one vote per share.

Proposal 1 --- Election of Directors

<u>Elected Director</u>	<u>Term Expires</u>	<u>Votes For</u>	<u>Votes Against</u>
Robert A. Dolson	2002	41,954,132	47,443
O. Gene Gabbard	2002	41,954,632	46,943
William H. Scott, III	2002	41,954,632	46,943

Continuing Directors

Campbell B. Lanier, III	2000
Andrew M. Walker	2000
Donald W. Burton	2001
Malcolm C. Davenport, V	2001
William T. Parr	2001
William B. Timmerman	2000

Proposal 2 ---Amendment to the ITC^DeltaCom, Inc. 1997 Stock Option Plan

An amendment to the ITC^DeltaCom, Inc. 1997 Stock Option Plan to increase the number of shares of our common stock that may be issued thereunder from 4,815,000 shares to 7,815,000 shares was voted on and approved.

Votes For	33,636,389
Votes Against	3,020,069
Votes Withheld	29,826
Broker Non-Votes	5,315,291

Proposal 3 --- Ratification of the Appointment of ITC^DeltaCom's Independent Public Accountants.

Votes For	41,981,073
Votes Against	5,052
Votes Withheld	15,450
Broker Non-Votes	0

Item 5. *Other Information*

Pursuant to the Agreement and Plan of Merger between AvData Systems, Inc. and ITC^DeltaCom, dated April 15, 1999, James H. Black, Jr. was unanimously appointed to ITC^DeltaCom's board of directors on July 27, 1999. Mr. Black's term will expire in 2000.

In connection with Mr. Black's appointment, the number of directors constituting ITC^DeltaCom's board was increased from nine to ten.

Item 6. *Exhibits and Reports on Form 8-K*

(a) Exhibits.

2.1 Agreement and Plan of Merger, dated April 15, 1999. Filed as exhibit 2.1 to the Current Report on Form 8-K, File No. 0-23253, filed with the Securities and Exchange Commission on April 15, 1999, and incorporated herein by reference.

27.1 Financial Data Schedule.

99.1 Press Release dated April 15, 1999. Filed as exhibit 99.1 to the Current Report on Form 8-K, File No. 0-23253, filed with the Securities and Exchange Commission on April 15, 1999, and incorporated herein by reference.

99.2 Press Release dated April 28, 1999. Filed as exhibit 99.1 to the Current Report on Form 8-K, File No. 0-23253, filed with the Securities and Exchange Commission on May 6, 1999, and incorporated herein by reference.

(b) Reports on Form 8-K.

On April 15, 1999, in connection with the acquisition of AvData, ITC^DeltaCom filed a Current Report on Form 8-K.

On May 6, 1999, in connection with the public offering of common stock and the private offering of 4½% convertible subordinated notes due 2006, ITC^DeltaCom filed a Current Report on Form 8-K.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ITC^DELTACOM, INC.
(Registrant)

Date: August 13, 1999

By: /s/ Foster O. McDonald
Foster O. McDonald
President

Date: August 13, 1999

By: /s/ Douglas A. Shumate
Douglas A. Shumate
Senior Vice President and
Chief Financial Officer

Financial Data Schedule
(In thousands)

This financial data schedule contains summary financial information extracted from the unaudited balance sheet of ITC^DeltaCom, Inc. as of June 30, 1999 and the related unaudited, consolidated statements of operations for the six months ended June 30, 1999. This information is qualified in its entirety by reference to such financial statements.

<u>PERIOD-TYPE</u>	<u>6-MOS</u>
Fiscal Year End	Dec. 31, 1999
Period Start	Jan. 01, 1999
Period End	June 30, 1999
Cash	341,220
Securities	0
Receivables	43,506
Allowances	1,582
Inventory	2,157
Current Assets	404,184
PP&E	382,013
Depreciation	75,737
Total Assets	788,860
Current Liabilities	56,814
Bonds	516,517
Preferred Mandatory	0
Preferred	15
Common	581
Other-SE	214,421
Total Liability and Equity	788,860
Sales	110,410
Total Revenues	110,410
CGS	55,020
Total Costs	120,878
Other Income	529
Loss Provision	495
Interest Expense	21,594
Income Pretax	(25,854)
Income Tax Expense	94
Income Continuing	(25,948)
Discontinued	0
Extraordinary	0
Changes	0
Net Income	(25,948)
EPS-Primary	(.49)
EPS-Diluted	(.49)

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 1999

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-23253

ITC^DELTACOM, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

58-2301135
(I.R.S. Employer
Identification Number)

1791 O.G. Skinner Drive, West Point, GA
(Address of principal executive offices)

31833
(Zip Code)

Registrant's telephone number, including area code: (706) 385-8000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Outstanding at November 8, 1999

Common Stock at \$.01 par value

59,431,747 Shares

ITC^DELTACOM, INC.

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**PART I
FINANCIAL INFORMATION**

Item 1 – Financial Statements

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 1999 (Unaudited)	December 31, 1998
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 289,464	\$ 184,167
Restricted assets	13,709	14,300
Accounts receivable:		
Customer, net of allowance for uncollectible accounts of \$2,028 and \$1,260 in 1999 and 1998, respectively	47,790	34,219
Affiliate	3,491	3,307
Inventory	4,365	1,635
Prepaid expenses	2,721	591
Federal income tax refunds receivable	3,939	3,939
Total current assets	<u>365,479</u>	<u>242,158</u>
PROPERTY, PLANT AND EQUIPMENT, net	<u>348,762</u>	<u>262,050</u>
OTHER LONG-TERM ASSETS:		
Intangible assets, net of accumulated amortization of \$8,623 and \$6,303 in 1999 and 1998, respectively	88,509	63,160
Restricted assets	-	5,735
Other long-term assets	15,779	14,414
Total other long-term assets	<u>104,288</u>	<u>83,309</u>
Total assets	<u>\$ 818,529</u>	<u>\$ 587,517</u>

The accompanying notes are an integral part of these consolidated balance sheets.

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 1999 (Unaudited)	December 31, 1998
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable:		
Trade	\$ 17,410	\$ 12,810
Construction	9,855	7,233
Accrued interest	12,527	8,049
Accrued compensation	5,023	2,998
Unearned revenue	13,633	11,457
Other accrued liabilities	9,296	8,418
Current portion of long-term debt and capital lease obligations	760	1,075
Total current liabilities	<u>68,504</u>	<u>52,040</u>
LONG-TERM LIABILITIES:		
Deferred income taxes	512	418
Long-term debt and capital lease obligations	<u>516,329</u>	<u>416,859</u>
Total long-term liabilities	<u>516,841</u>	<u>417,277</u>
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.01 par value; \$7.40 liquidation preference; 5,000,000 shares authorized; 1,480,771 shares issued and outstanding in 1999 and 1998, respectively	15	15
Common Stock, \$.01 par value; 90,000,000 shares authorized; 59,397,810 and 51,339,838 shares issued and outstanding in 1999 and 1998, respectively	594	513
Additional paid-in-capital	321,401	167,023
Accumulated deficit	<u>(88,826)</u>	<u>(49,351)</u>
Total stockholders' equity	<u>233,184</u>	<u>118,200</u>
Total liabilities and stockholders' equity	<u>\$ 818,529</u>	<u>\$ 587,517</u>

The accompanying notes are an integral part of these consolidated balance sheets.

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1999	1998	1999	1998
Operating revenues	\$ 65,811	\$ 45,676	\$ 176,221	\$ 123,222
Cost of services	<u>31,542</u>	<u>22,485</u>	<u>86,562</u>	<u>58,619</u>
Gross margin	<u>34,269</u>	<u>23,191</u>	<u>89,659</u>	<u>64,603</u>
Operating expenses:				
Selling, operations and administration	26,212	17,253	68,592	46,290
Depreciation and amortization	<u>14,382</u>	<u>8,192</u>	<u>37,860</u>	<u>21,435</u>
Total operating expenses	<u>40,594</u>	<u>25,445</u>	<u>106,452</u>	<u>67,725</u>
Operating loss	<u>(6,325)</u>	<u>(2,254)</u>	<u>(16,793)</u>	<u>(3,122)</u>
Other income (expense):				
Interest expense	(11,806)	(7,884)	(33,401)	(23,322)
Interest income	4,588	2,005	10,268	7,359
Other income (expense), net	<u>15</u>	<u>(599)</u>	<u>545</u>	<u>(2,825)</u>
Total other expense, net	<u>(7,203)</u>	<u>(6,478)</u>	<u>(22,588)</u>	<u>(18,788)</u>
Loss before income taxes and extraordinary item	(13,528)	(8,732)	(39,381)	(21,910)
Income tax (benefit) expense	<u>-</u>	<u>(1,916)</u>	<u>94</u>	<u>(5,611)</u>
Loss before extraordinary item	(13,528)	(6,816)	(39,475)	(16,299)
Extraordinary item -- loss on early extinguishment of debt (less related income tax benefit of \$2,133 in 1998)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,436)</u>
Net loss	<u>\$ (13,528)</u>	<u>\$ (6,816)</u>	<u>\$ (39,475)</u>	<u>\$ (24,735)</u>
Basic and diluted net loss per common share:				
Before extraordinary loss	\$ (0.23)	\$ (0.13)	\$ (0.71)	\$ (0.32)
Extraordinary loss	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.17)</u>
Net loss	<u>\$ (0.23)</u>	<u>\$ (0.13)</u>	<u>\$ (0.71)</u>	<u>\$ (0.49)</u>
Basic and diluted weighted average common shares outstanding	<u>59,180,843</u>	<u>51,243,579</u>	<u>55,321,483</u>	<u>50,861,035</u>

The accompanying notes are an integral part of these consolidated statements.

ITC^DELTACOM, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Nine Months Ended September 30,	
	1999	1998
Cash flows from operating activities:		
Net loss	\$ (39,475)	\$ (24,735)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	37,860	21,435
Amortization of bond issue costs	1,546	1,154
Deferred income taxes	94	(6,041)
Extraordinary item--loss on early extinguishment of debt	-	10,569
Changes in current operating assets and liabilities, net of acquisitions:		
Accounts receivable, net	(12,580)	(7,179)
Inventory	(1,459)	(869)
Prepaid expenses	(1,804)	(195)
Income tax refunds receivable from ITC Holding	-	2,448
Income tax receivable	-	(3,880)
Accounts payable	2,035	991
Accrued interest	4,478	4,169
Unearned revenue	(7)	2,540
Accrued compensation and other accrued liabilities	1,844	7,238
Income tax payable - Affiliate	-	748
Total adjustments	32,007	33,128
Net cash (used in) provided by operating activities	(7,468)	8,393
Cash flows from investing activities:		
Capital expenditures	(117,865)	(100,525)
Change in accrued construction costs	2,622	4,970
Change in restricted assets	6,326	23,684
Purchase of AvData Systems, Inc., net of cash received	2,881	-
Other	(554)	(390)
Net cash used in investing activities	(106,590)	(72,261)
Cash flows from financing activities:		
Proceeds from issuance of 4 1/2% Notes, net of issuance costs	96,954	-
Proceeds from issuance of 8 7/8% Senior Notes, net of issuance costs	-	155,170
Repayment of 11% Senior Notes	-	(70,000)
Premium paid on early retirement of 11% Senior Notes	-	(7,700)
Repayment of debt assumed in IT Group Communications acquisition	-	(760)
Repayment of other long-term debt and capital lease obligations	(860)	(654)
Proceeds from issuance of common stock, net of offering expenses	120,929	-
Proceeds from exercise of common stock options	2,231	1,207
Other	101	(119)
Net cash provided by financing activities	219,355	77,144

The accompanying notes are an integral part of these consolidated statements.

ITC^DELTACOM, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(In thousands)

	Nine Months Ended September 30,	
	1999	1998
Increase in cash and cash equivalents	\$ 105,297	\$ 13,276
Cash and cash equivalents at beginning of period	<u>184,167</u>	<u>94,374</u>
Cash and cash equivalents at end of period	<u>\$ 289,464</u>	<u>\$ 107,650</u>
 SUPPLEMENTAL CASH FLOW DISCLOSURES:		
Cash paid for interest	<u>\$ 28,303</u>	<u>\$ 17,943</u>
Cash paid (refunds received) for income taxes, net	<u>\$ 64</u>	<u>\$ (1,664)</u>
 NONCASH TRANSACTIONS:		
Acquisitions:		
Note payable and capital lease obligation assumed	<u>\$ 63</u>	<u>\$ 974</u>
Issuance of common stock	<u>\$ 31,190</u>	<u>\$ 2,793</u>

The accompanying notes are an integral part of these consolidated statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION, NATURE OF BUSINESS, AND BASIS OF PRESENTATION

Organization

ITC^DeltaCom, Inc. ("ITC^DeltaCom" or the "Company") was incorporated on March 24, 1997 under the laws of the State of Delaware, as a wholly-owned subsidiary of ITC Holding Company, Inc., to acquire and operate selected wholly owned subsidiaries of ITC Holding. On July 25, 1997, upon receipt of regulatory approvals and other consents, ITC Holding completed the reorganization of the subsidiaries that became wholly owned by ITC^DeltaCom.

Effective October 20, 1997, as part of a further reorganization of ITC Holding, ITC Holding transferred all of its assets, other than stock in ITC^DeltaCom, and all of its liabilities to another entity and then merged with and into ITC^DeltaCom. ITC^DeltaCom was the surviving corporation in the merger.

Nature of Business

ITC^DeltaCom is a full service provider of integrated voice and data telecommunications services on a retail basis to mid-sized and major regional businesses in the southern United States. These services, which are called its "retail services," include:

- local exchange telephone services;
- long distance services;
- calling card and operator services;
- Asynchronous Transfer Mode, or ATM, frame relay and high capacity broadband private line services;
- Internet, Intranet and web page hosting services;
- primary rate interface connectivity and collocation services to Internet service providers, or "ISPs";
- customer premise equipment sale, installation and repair;
- enhanced services, including conference calling, fax broadcasting and pre-paid calling cards;
- consulting, integration, operation and proactive management of data networks; and
- in-depth network performance analysis and implementation and design services for data network deployment.

ITC^DeltaCom is also a leading regional provider of wholesale long-haul services to other telecommunications companies, which means it sells capacity on its network to, and switches and transports telecommunications traffic for, those companies. These wholesale long-haul services are referred to as ITC^DeltaCom's "carriers' carrier services."

In connection with these businesses, ITC^DeltaCom owns, operates and manages an extensive fiber optic network in the southern United States.

Basis of Presentation

The accompanying interim consolidated financial statements are unaudited and have been prepared by Company management according to the rules and regulations of the SEC. In the opinion of management, all adjustments considered necessary for the fair presentation of the unaudited, consolidated financial statements have been included, and the unaudited, consolidated financial statements present fairly the financial position and results of operations for the interim periods presented. These unaudited, consolidated financial statements should be read in conjunction with the audited, consolidated financial statements and related footnotes included in ITC^DeltaCom's Annual Report on Form 10-K, as filed with the SEC on March 25, 1999 and as amended by ITC^DeltaCom's Form 10-K/A filed with the SEC on April 30, 1999 (File No. 0-23252).

2. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

Long term debt and capital lease obligations at September 30, 1999 and December 31, 1998 consisted of the following (in thousands):

	September 30, 1999	December 31, 1998
4-1/2% Convertible Subordinated Notes	\$ 100,000	\$ 0

11% Senior Notes	130,000	130,000
8-7/8% Senior Notes	159,865	159,853
9-3/4% Senior Notes	125,000	125,000
Capital lease obligations at varying interest rates, maturing through June 2006	2,169	2,643
Other	<u>55</u>	<u>438</u>
Total long-term debt and capital lease obligations	517,089	417,934
Less current maturities	<u>(760)</u>	<u>(1,075)</u>
Total	<u>\$ 516,329</u>	<u>\$ 416,859</u>

On May 12, 1999, ITC^DeltaCom completed a private offering and sale of \$100 million aggregate principal amount of its 4½% Convertible Subordinated Notes due May 15, 2006 (the "Notes"), yielding net proceeds to ITC^DeltaCom of approximately \$97.0 million. The Notes bear interest at an annual rate of 4½% payable each May 15 and November 15 beginning November 15, 1999. The Notes are unsecured general obligations of ITC^DeltaCom and are convertible into common stock at any time after August 10, 1999, at a conversion price of \$26.67 per share, subject to adjustment in certain events. ITC^DeltaCom may redeem the Notes or make the Notes nonconvertible under certain circumstances before May 17, 2002. ITC^DeltaCom intends to use the net proceeds from this private offering primarily (1) to fund an accelerated expansion of its fiber optic network and (2) to purchase switching equipment, inventory and other electronics and network assets related to its fiber optic network and to its provision of primary rate interface connectivity to ISPs.

In May 1999, ITC^DeltaCom amended its secured revolving credit facility with NationsBank, N.A. to permit (1) the merger with AvData (see Note 5), (2) the issuance of the common stock in the May 1999 common stock offering (see Note 3) and (3) the issuance of and payment of interest on the Notes, the redemption of the Notes and the issuance of common stock upon conversion of the Notes.

3. EQUITY INTERESTS

Public Offering of Common Stock

On May 12, 1999, ITC^DeltaCom completed an underwritten public offering and sale of 6,037,500 shares of its common stock, yielding net proceeds to ITC^DeltaCom of approximately \$120.9 million. ITC^DeltaCom intends to use the net proceeds from this offering (1) to fund an accelerated market expansion of its telecommunications business, including expansion of its fiber optic network, expansion of its ISP local telecommunications services and the opening of new sales offices, and (2) for additional working capital and other general corporate purposes.

Amendment to Employee Stock Option Plan

On May 13, 1999, ITC^DeltaCom's stockholders approved an increase in the number of options authorized to be granted under the ITC^DeltaCom, Inc. 1997 Stock Option Plan from 4,815,000 to 7,815,000.

4. COMMITMENTS AND CONTINGENCIES

At September 30, 1999, the Company had entered into agreements with vendors to purchase approximately \$81.3 million of equipment related to the improvement and installation of switches, other network expansion efforts and certain services.

5. ACQUISITIONS

AvData Systems, Inc.

On July 8, 1999, ITC^DeltaCom completed its acquisition by merger of AvData Systems, Inc. ("AvData"), a privately owned data network management solutions provider in Atlanta, Georgia. ITC^DeltaCom issued 983,511 shares of common stock to consummate the merger, of which 171,898 shares are being held by a trustee in a two-year escrow to protect against certain contingencies. The transaction is subject to an earnout, which, if certain performance objectives are met, could require ITC^DeltaCom to issue up to an additional 336,730 shares of common stock in 2000.

Scientific Telecommunications, Inc.

On August 16, 1999, ITC^DeltaCom completed its acquisition of certain assets of Scientific Telecommunications, Inc. ("SciTel"), a privately owned telecommunications equipment provider headquartered in Greenwood, Mississippi. The Company issued 83,117 shares of common stock to consummate the transaction.

6. SEGMENT REPORTING

As discussed in Note 1, ITC^DeltaCom operates in two business segments: retail services and carriers' carrier services. ITC^DeltaCom also has a corporate segment which has no operations. Identifiable assets of the corporate segment include \$109.9 million of cash and cash equivalents, \$4.1 million of other current assets and \$14.1 million of non-current assets. Summarized financial data by business segment as of and for the nine months ended September 30, 1999 and 1998 are as follows (in thousands):

	1999			
	Carriers' Carrier Segment	Retail Segment	Corporate Segment	Consolidated
Operating revenues	\$ 53,659	\$ 122,562	\$ 0	\$ 176,221
Gross margin	45,656	44,003	0	89,659
Selling, operations, and administration	17,214	51,378	0	68,592
Depreciation and amortization	20,630	17,169	61	37,860
Other income, net				10,813
Interest expense				33,401
Loss before income taxes and extraordinary item				\$ 39,381
Identifiable assets	\$ 401,226	\$ 289,182	\$ 128,121	\$ 818,529
Capital expenditures, net	\$ 50,230	\$ 65,013	\$ 0	\$ 115,243

1998

	Carriers' Carrier Segment	Retail Segment	Corporate Segment	Consolidated
Operating revenues	\$ 36,531	\$ 86,691	\$ 0	\$ 123,222
Gross margin	31,401	33,202	0	64,603
Selling, operations, and administration	10,614	35,676	0	46,290
Depreciation and amortization	13,737	7,637	61	21,435
Other income, net				4,534
Interest expense				23,322
Loss before income taxes and extraordinary item				\$ 21,910
Identifiable assets	\$ 272,893	\$ 179,445	\$ 16,938	\$ 469,276
Capital expenditures, net	\$ 39,906	\$ 55,649	\$ 0	\$ 95,555

7. SUBSEQUENT EVENTS

On October 1, 1999, the SEC declared effective the Company's registration statement registering for public resale by certain selling holders \$100 million aggregate principal amount of the Notes (see Note 2) and the shares of common stock into which the Notes are convertible. As of November 8, 1999, none of the Notes had been converted into shares of common stock. The Company will not receive any proceeds from resales of the securities covered by this registration statement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This quarterly report on Form 10-Q contains certain forward-looking statements that involve risks and uncertainties. In addition, members of ITC^DeltaCom's senior management may, from time to time, make forward-looking statements concerning ITC^DeltaCom's operations, performance and other developments. ITC^DeltaCom's actual results could differ materially from those anticipated in such forward-looking statements as a result of various factors. The following analysis should be read in conjunction with ITC^DeltaCom's Annual Report on Form 10-K for the year ended December 31, 1998 and the financial statements and related notes thereto. ITC^DeltaCom has included data with respect to EBITDA, as adjusted, in the following analysis because it is a measure commonly used in the company's industry. EBITDA, as adjusted, represents earnings before extraordinary item, net interest, other income (expense), income taxes, and depreciation and amortization. EBITDA, as adjusted, is not a measure of financial performance under generally accepted accounting principles and should not be considered an alternative to net income as a measure of performance or to cash flows as a measure of liquidity. EBITDA, as adjusted, is not necessarily comparable with similarly titled measures for other companies.

Unless otherwise indicated, all dollar amounts in the following Management's Discussion and Analysis of Financial Condition and Results of Operations that exceed \$1 million have been rounded to the nearest hundred thousand and all dollar amounts less than \$1 million have been rounded to the nearest thousand.

Overview

We are a full service provider of integrated voice and data telecommunications services on a retail basis to mid-size and major regional businesses in the southern United States and a leading regional provider of wholesale long-haul services to other telecommunications companies. In connection with these businesses, we own, operate and manage an extensive fiber optic network in the southern United States. We had revenues of \$65.8 million and \$45.7 million for the three months ended September 30, 1999 and 1998, respectively, and \$176.2 million and \$123.2 million for the nine months ended September 30, 1999 and 1998, respectively.

We provide our wholesale long-haul services, which we refer to as our "carriers' carrier services," to other telecommunications carriers, including AT&T, MCI WorldCom, Inc., Sprint Corporation, Cable & Wireless, Qwest Communications International Inc. and IXC Communications, Inc. Our carriers' carrier services business generated revenues of \$19.0 million and \$13.2 million for the three months ended September 30, 1999 and 1998, respectively, and \$53.7 million and \$36.5 million for the nine months ended September 30, 1999 and 1998, respectively.

We are also a full service provider of integrated retail telecommunications services, which we refer to as our "retail services," to mid-sized and major regional businesses in a bundled package tailored to the business customer's specific needs. These retail services include:

- local exchange telephone services;
- long distance services;
- calling card and operator services;
- Asynchronous Transfer Mode, or ATM, frame relay and high capacity broadband private line services;
- Internet, Intranet and web page hosting services;
- primary rate interface connectivity and collocation services to Internet service providers;
- customer premise equipment sale, installation and repair;
- enhanced services, including conference calling, fax broadcasting and pre-paid calling cards;
- consulting, integration, operation and proactive management of data networks; and
- in-depth network performance analysis and implementation and design services for data network deployment.

As of September 30, 1999, we provided retail services to approximately 11,900 business customers in 30 metropolitan areas and had sold approximately 91,800 access lines, of which approximately 76,000 had been installed. The backlog of lines installed, apparent in the difference in total lines sold and in service, is primarily due to lag times inherent in the ordering and installation of ILEC interconnection trunks necessary to respond to increasing demand for primary rate interface services. We intend to provide a full range of retail services in a total of approximately 47 metropolitan areas throughout the southern United States over the next two years. Our retail services business generated revenue of \$46.8 million and \$32.5 million for the three months ended September 30, 1999 and 1998, respectively, and \$122.6 million and \$86.7 million for the nine months ended September 30, 1999 and 1998, respectively.

At September 30, 1999, our fiber optics network reached over 90 points of presence, or "POPs," in the following 10 southern states: Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas. Our network extended approximately 8,250 route miles at that date, of which approximately 4,550 miles are owned by us and approximately 3,700 miles are owned and operated principally by three public utilities, Duke Power Company, Florida Power & Light Company and Entergy Technology Company, and managed and marketed by us. We expect to add approximately 150 owned and operated route miles to our fiber network by the end of 1999 and an additional 1,000 to 1,500 route miles by the end of 2000 through a combination of construction and long-term dark fiber leases. Completion of the construction of a 150-mile route has been rescheduled from fourth quarter 1999 to first quarter 2000. At September 30, 1999, our network included eight Nortel DMS-500 and one Nortel DMS-250 voice switches, seventeen Ascend 9000 frame relay switches and ten ATM switches. In addition, we had completed physical collocation of switching equipment in 70 BellSouth markets.

During the three months ended September 30, 1999, our operational highlights included the following:

- We completed our acquisition by merger of AvData Systems, Inc. ("AvData"), a privately owned data network management solutions provider in Atlanta, Georgia.
- We completed our acquisition of certain assets of Scientific Telecommunications, Inc. ("SciTel"), a privately owned telecommunications equipment provider in Mississippi;
- The United States District Court in Montgomery, Alabama issued an order requiring BellSouth Telecommunications, Inc. to pay reciprocal compensation for dial-up calls from BellSouth customers to ISPs served by ITC^DeltaCom. That order is currently under review by the District Court on BellSouth's request.
- We completed the addition of approximately 150 route miles of new fiber network, increasing the total network to approximately 8,250 route miles.
- We completed the installation of 34 additional access nodes, raising the total number to 70 operational BellSouth collocations. We expect over 100 central offices of incumbent local exchange carriers ("ILECs") to be served with access node collocations by year-end 1999.
- We completed the installation of our eighth Nortel DMS-500 switch, in Montgomery, Alabama; and
- we opened a branch office in Raleigh, North Carolina, and expanded former SciTel offices in Tupelo, Greenwood, and Hattiesburg, Mississippi, to full service ITC^DeltaCom branches. These openings increased our market coverage to 31 branch offices operating in 30 markets at the end of the third quarter.

On July 1, 1999, our resale and interconnection agreement with BellSouth expired. We are currently in arbitration with BellSouth, in all BellSouth states except Kentucky, regarding certain terms and conditions of the interconnection agreement. As contemplated by the original interconnection agreement, we will continue to exchange traffic under substantially the same terms on a month-to-month basis until such time as renewal terms, conditions and prices are ordered by a state commission or negotiated by the parties. The new terms, conditions and prices would then be retroactive to July 1, 1999. We expect that a final resolution will be reached during the first quarter of 2000.

Pursuant to our interconnection agreement with BellSouth, we continued to bill BellSouth during the first nine months of 1999 for reciprocal interconnection charges related to our provision of facilities-based local exchange services. A significant amount of these charges is attributable to call terminations by us to customers that are ISPs. BellSouth has stated that it views termination to ISPs as not included under the reciprocal charge arrangements set forth in the BellSouth interconnection agreement, and has refused to pay compensation for such terminations either to us or to other CLECs operating under similar interconnection agreements. The Alabama Public Service Commission rendered a ruling in favor of ITC^DeltaCom in March 1999 and issued an order requiring BellSouth to pay all withheld reciprocal compensation sums within 20 days. BellSouth appealed this ruling to the United States District Court in Montgomery, Alabama. In August 1999, the United States District Court entered a decision and ordered BellSouth to pay reciprocal compensation for dial-up calls from BellSouth customers to ISPs served by us. The funds are currently being held in escrow by the federal court pending outcome of BellSouth's request for review of the order by the United States District Court. We have filed a similar complaint before the South Carolina Public Utilities Commission seeking a ruling requiring BellSouth to pay the reciprocal compensation with respect to our South Carolina operations.

We have continued to bill BellSouth the reciprocal compensation rate under the interconnection agreement which expired July 1, 1999, which rate we believe will be substantially reduced retroactively to July 1, 1999 pursuant to the proceedings described above. Such a rate reduction would result in a substantial reduction in the accounts receivable billed and reserved subsequent to July 1, 1999. For the three months and nine months ended September 30, 1999, these charges to BellSouth amounted to approximately \$5.9 million and \$13.7 million, respectively. We recognized approximately \$400,000 and \$1.3 million of these charges as operating revenues during the three months and nine months ended

September 30, 1999, respectively, which represent amounts BellSouth has actually paid or indicated it will pay, and we reserved against the remaining \$5.5 million and \$12.4 million of billings during the three months and nine months ended September 30, 1999, respectively. As of September 30, 1999, we had reserved for in excess of \$18 million of cumulative local interconnection billings.

In July 1999, we completed our acquisition, by merger, of AvData, a privately owned data network management solutions provider in Atlanta, Georgia. We issued 983,511 shares of our common stock related to this merger, of which 171,898 shares are being held in a two-year escrow account to protect against certain contingencies. The transaction is subject to an earnout, which, if certain performance objectives are met, could require us to issue up to an additional 336,730 shares of common stock in 2000. We believe that this acquisition has strengthened and enhanced our data service offerings by expanding our current base of data products to include consulting, integration, operation and proactive management of data networks, in-depth network performance analysis, as well as design and implementation services for data network deployment.

In July 1999, we announced that we would introduce an advanced internet protocol ("IP") network in the southeast beginning this fall. This network became operational in October 1999. Through October, we had installed 12 Cisco GSR routers and 14 Cisco 7513 edge routers at strategic points on this IP network. The addition of this network should enhance our data product offerings and allow us to better serve the expanding demand for enhanced IP-based data and Internet services.

In August 1999, we completed our acquisition of certain assets of SciTel, a privately owned telecommunications equipment provider headquartered in Greenwood, Mississippi. We issued 83,117 shares of common stock to consummate the transaction. This acquisition expanded our physical presence in Mississippi to include the Hattiesburg, Tupelo and Greenwood markets.

Quarterly Statistical Highlights*

	September 30, <u>1999</u>	June 30, <u>1999</u>	March 31, <u>1999</u>	December 31, <u>1998</u>
Statistical Data:				
Cumulative markets	30	26	23	22
Business customers served –				
Retail Services**	11,900	11,250	11,000	10,500
Route miles	8,250	8,100	7,800	7,800
Collocations	70	36	30	30
Voice switches	9	8	7	7
ATM switches	10	10	7	6
Frame relay switches	17	19	15	14
Number of employees	1,570	1,330	1,170	1,125
Lines sold cumulative	91,800	74,400	60,000	42,000
Lines installed cumulative	76,000	56,000	45,300	32,200
Lines installed/Lines sold percentage	83%	75%	76%	77%

*Data rounded except as to markets, collocations and switches.

**Reflects the combination of certain customers' multiple accounts into a single customer profile.

Results of Operations

The following tables set forth, in thousands, certain historical data for the three and nine month periods ended September 30, 1999 and the three and nine month periods ended September 30, 1998 for our carriers' carrier services and retail services segments:

	Carriers' Carrier Services							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	1999	%	1998	%	1999	%	1998	%
Revenues	\$ 19,030	100%	\$ 13,161	100%	\$ 53,659	100%	\$ 36,531	100%
Cost of services	<u>2,593</u>	<u>14%</u>	<u>2,096</u>	<u>16%</u>	<u>8,003</u>	<u>15%</u>	<u>5,130</u>	<u>14%</u>
Gross margin	<u>16,437</u>	<u>86%</u>	<u>11,065</u>	<u>84%</u>	<u>45,656</u>	<u>85%</u>	<u>31,401</u>	<u>86%</u>
Operating expenses:								
Selling, operations and administration	6,660	35%	3,544	27%	17,214	32%	10,614	29%
Depreciation and amortization	<u>7,581</u>	<u>40%</u>	<u>5,026</u>	<u>38%</u>	<u>20,630</u>	<u>38%</u>	<u>13,737</u>	<u>38%</u>
Total operating expenses	<u>14,241</u>	<u>75%</u>	<u>8,570</u>	<u>65%</u>	<u>37,844</u>	<u>70%</u>	<u>24,351</u>	
	67%							
Operating income	\$ <u>2,196</u>	<u>11%</u>	\$ <u>2,495</u>	<u>19%</u>	\$ <u>7,812</u>	<u>15%</u>	\$ <u>7,050</u>	<u>19%</u>
EBITDA, as adjusted	\$ <u>9,777</u>	<u>51%</u>	\$ <u>7,521</u>	<u>57%</u>	\$ <u>28,442</u>	<u>53%</u>	\$ <u>20,787</u>	<u>57%</u>

	Retail Services							
	Three Months Ended September 30,				Nine Months Ended September 30,			
	1999	%	1998	%	1999	%	1998	%
Revenues	\$ 46,781	100%	\$ 32,515	100%	\$ 122,562	100%	\$ 86,691	100%
Cost of services	<u>28,949</u>	<u>62%</u>	<u>20,389</u>	<u>63%</u>	<u>78,559</u>	<u>64%</u>	<u>53,489</u>	<u>62%</u>
Gross margin	<u>17,832</u>	<u>38%</u>	<u>12,126</u>	<u>37%</u>	<u>44,003</u>	<u>36%</u>	<u>33,202</u>	<u>38%</u>
Operating expenses:								
Selling, operations and administration	19,552	42%	13,709	42%	51,378	42%	35,676	41%
Depreciation and amortization	<u>6,781</u>	<u>14%</u>	<u>3,145</u>	<u>10%</u>	<u>17,169</u>	<u>14%</u>	<u>7,637</u>	<u>9%</u>
Total operating expenses	<u>26,333</u>	<u>56%</u>	<u>16,854</u>	<u>52%</u>	<u>68,547</u>	<u>56%</u>	<u>43,313</u>	<u>50%</u>
Operating loss	\$ <u>(8,501)</u>	<u>(18)%</u>	\$ <u>(4,728)</u>	<u>(15)%</u>	\$ <u>(24,544)</u>	<u>(20)%</u>	\$ <u>(10,111)</u>	<u>(12)%</u>
EBITDA, as adjusted	\$ <u>(1,720)</u>	<u>(4)%</u>	\$ <u>(1,583)</u>	<u>(5)%</u>	\$ <u>(7,375)</u>	<u>(6)%</u>	\$ <u>(2,474)</u>	<u>(3)%</u>

THREE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED WITH THREE MONTHS ENDED SEPTEMBER 30, 1998

Revenues

Total revenue increased \$20.1 million, or 44.0%, from \$45.7 million for the three months ended September 30, 1998 to \$65.8 million for the three months ended September 30, 1999. Revenues from our retail services increased \$14.3 million, or 44.0%, from \$32.5 million for the three months ended September 30, 1998 to \$46.8 million for the three months ended September 30, 1999. The increase in retail services revenue was attributable to:

- the inclusion of revenue from the operations of AvData and SciTel since the completion of those transaction on July 8, 1999 and August 16, 1999, respectively;
- increased product diversity;
- a continued increase in the number of business customers;
- continued geographic expansion;
- continued growth in local lines in service;
- continued growth in long distance minutes of use, partially offset by a decrease in rates per long distance minutes per use; and
- continued stability in the rate of revenue loss from lost customers from period to period.

We continue to experience revenue growth in our local and data products and expect this trend, as well as the growth in our minutes of use, to continue through at least the remainder of 1999.

Revenues from carriers' carrier services increased \$5.8 million, or 44.0%, from \$13.2 million for the three months ended September 30, 1998 to \$19.0 million for the three months ended September 30, 1999. The increase in revenue from the carriers' carrier services segment was attributable to:

- the continued increasing demand for bandwidth, partially offset by continued adjustments of customers' rates to current market rates;
- expansion of owned and operated network routes, including our addition of 150 route miles during the third quarter of 1999; and
- growth in commissions derived from the managed, monitored and marketed network routes.

We expect to continue to experience growth in our carrier's carrier services revenue during the remainder of 1999 and into 2000. This revenue growth is expected, in part, from the expanded rollout of our wholesale IP backbone product, even as the rates of a portion of our customer base continue to be adjusted to current market rates.

Cost of Services

Total cost of services increased \$9.0 million, from \$22.5 million for the three months ended September 30, 1998 to \$31.5 million for the three months ended September 30, 1999. Cost of services for retail services increased \$8.5 million, from \$20.4 million for the three months ended September 30, 1998 to \$28.9 million for the three months ended September 30, 1999. Cost of services for retail services was 62% as a percentage of revenue for the three months ended September 30, 1999 compared to 63% for the three months ended September 30, 1998. The decrease in cost of services as a percentage of revenue from the third quarter of 1998 compared to the third quarter of 1999 was due primarily to:

- improved off-network long distance termination costs, partially offset by reduced long distance rates;
- a higher percentage of facilities-based local products; and
- the expansion of our data network service offerings, which carry higher gross margins.

We expect to experience modest improvements in cost of services as a percentage of revenues by continuing (1) to move off-network local and long distance services onto our own facilities and (2) to benefit from reductions in our off-network costs. We expect that any such improvements will be partially offset by the initial costs related to the implementation of our advanced IP network.

Cost of services attributable to carriers' carrier services increased \$500,000, from \$2.1 million for the three months ended September 30, 1998 to \$2.6 million for the three months ended September 30, 1999. Cost of services as a percentage of revenue for carriers' carrier services decreased to 14% for the three months ended September 30, 1999 from 16% for the

three months ended September 30, 1998. The decrease in cost of services as a percentage of revenue for the carriers' carrier services was due primarily to (1) moving off-network traffic onto our network as we added additional fiber routes, which allowed us to create additional self-healing rings, and (2) favorable competitive market pressures applied to pricing of off-network circuits.

Selling, Operations and Administration Expense

Total selling, operations and administration expense increased \$8.9 million, from \$17.3 million, or 37.8% as a percentage of revenue, for the three months ended September 30, 1998 to \$26.2 million, or 39.8% as a percentage of revenue, for the three months ended September 30, 1999. Selling, operations and administration expense attributable to retail services increased \$5.9 million, from \$13.7 million, or 42% as a percentage of revenue, for the three months ended September 30, 1998 to \$19.6 million, or 42% as a percentage of revenue, for the three months ended September 30, 1999. The increase was primarily attributable to:

- an increase in the number of employees, primarily employees dedicated to sales, customer support and provisioning;
- the expansion of our customer premises equipment product line into four additional offices;
- continued geographic expansion, including the conversion of SciTel's Tupelo, Hattiesburg and Greenwood offices to full service branches; and
- costs associated with the expansion of existing service offerings, primarily local services.

We expect that selling, operations and administration expense as a percentage of revenue for our retail services should begin to decline in the fourth quarter.

Selling, operations and administration expense attributable to carriers' carrier services increased \$3.2 million, from \$3.5 million, or 27% as a percentage of revenue, for the three months ended September 30, 1998 to \$6.7 million, or 35% as a percentage of revenue, for the three months ended September 30, 1999. The increase in selling, operations and administration expense for the carriers' carrier segment was primarily due to additions of personnel resulting from the geographic expansion of our network, costs related to the infrastructure required to support the IP backbone and an increase in information systems, research and development, marketing and accounting costs.

Depreciation and Amortization

Total depreciation and amortization expense increased \$6.2 million, from \$8.2 million for the three months ended September 30, 1998 to \$14.4 million for the three months ended September 30, 1999. Retail services accounted for \$3.6 million of the increase, which was primarily related to the installation of new central office and related switching equipment. Carriers' carrier services operations accounted for \$2.6 million of the increase, which was primarily due to the purchase of additional electronic equipment to support the continued expansion of the fiber optic network. We expect depreciation and amortization to continue to increase during the remainder of 1999 as we add new switches and network facilities and expand into new markets.

Interest Expense

Total interest expense increased \$3.9 million, from \$7.9 million for the three months ended September 30, 1998 to \$11.8 million for the three months ended September 30, 1999. The \$3.9 million increase in interest expense was primarily attributable to the interest on our 9-3/4% Senior Notes, which we issued in November 1998, and our 4½% Convertible Subordinated Notes, which we issued in May 1999.

Interest Income

Total interest income increased \$2.6 million, from \$2.0 million for the three months ended September 30, 1998 to \$4.6 million for the three months ended September 30, 1999, as a result of the temporary investment of available cash balances pending their deployment for operations.

Other Income (Expense)

In March 1998, we reclassified our interest rate swap from a hedge of an anticipated transaction to a trading security. The reclassification resulted in a non-cash charge against earnings of approximately \$2.5 million. This change in classification required us to record the interest rate swap agreement on the consolidated balance sheet at fair market value.

The interest rate swap agreement is marked to market on a monthly basis. For the three months ended September 30, 1999 and 1998, we recognized income (expense) from the mark-to-market of the interest rate swap of approximately \$15,000 and \$(599,000), respectively.

EBITDA, as adjusted

EBITDA, as adjusted, increased \$2.2 million, from \$5.9 million for the three months ended September 30, 1998 to \$8.1 million for the three months ended September 30, 1999. EBITDA, as adjusted, attributable to our retail services for the three months ended September 30, 1999 was \$(1.7) million compared to \$(1.6) million for the three months ended September 30, 1998. EBITDA, as adjusted, attributable to retail services improved from (4.9)% of revenues for the three months ended September 30, 1998 to (3.7)% of revenues for the three months ended September 30, 1999. The improvement in EBITDA, as adjusted, as a percentage of revenue for the retail services, which was partially offset by the costs associated with the expansion of our business, was primarily due to:

- continued revenue growth resulting from product and geographic expansion;
- improved off-network long distance termination costs;
- a higher percentage of facilities-based local products;
- continuous monitoring of our network to ensure maximum cost efficiencies; and
- the inclusion of higher gross margin products associated with our expanded data product offerings.

EBITDA, as adjusted, attributable to our carriers' carrier services increased \$2.3 million, from \$7.5 million for the three months ended September 30, 1998 to \$9.8 million for the three months ended September 30, 1999. The increase in EBITDA, as adjusted, for the carriers' carrier segment was primarily attributable to the continued increase in the demand for bandwidth, partially offset by rate adjustments for customers to current market rates and an increase in information systems, research and development, marketing and accounting costs.

Although we expect to continue to experience pricing pressures and incur additional costs related to the implementation of our advanced IP network, we expect EBITDA, as adjusted, to increase during the remainder of 1999 as we benefit from the migration of more of our new and existing traffic onto our own facilities and as we experience greater penetration of recently expanded markets.

NINE MONTHS ENDED SEPTEMBER 30, 1999 COMPARED WITH NINE MONTHS ENDED SEPTEMBER 30, 1998

Revenues

Total revenue increased \$53.0 million, or 43.0%, from \$123.2 million for the nine months ended September 30, 1998 to \$176.2 million for the nine months ended September 30, 1999. Revenues from our retail services increased \$35.9 million, or 41.4%, from \$86.7 million for the nine months ended September 30, 1998 to \$122.6 million for the nine months ended September 30, 1999. The increase in retail services revenue was attributable to:

- continued increase in the number of business customers, from 10,000 as of September 30, 1998 to over 11,900 as of September 30, 1999;
- the inclusion of revenue from the operations of AvData and SciTel since the completion of those transactions on July 8, 1999 and August 16, 1999, respectively;
- an increase in product diversity;
- continued geographic expansion, including the addition of 9 new markets;
- continued growth in local lines in service, from 25,500 as of September 30, 1998 to 76,000 as of September 30, 1999;
- continued growth in long distance minutes of use; and
- continued stability in the rate of revenue loss from lost customers from period to period.

Revenues from our carriers' carrier services increased \$17.2 million, or 47.1%, from \$36.5 million for the nine months ended September 30, 1998 to \$53.7 million for the nine months ended September 30, 1999. The increase in revenue from the carriers' carrier services segment was attributable to:

- the continued increasing demand for bandwidth, partially offset by pricing pressures on certain network routes;
- expansion of the fiber optic network, from approximately 7,000 route miles as of September 30, 1998 to approximately 8,250 route miles as of September 30, 1999; and

- growth in commissions derived from our managed, monitored, and marketed network routes.

We expect to experience continued revenue growth in both our retail services and our carrier's carrier services during the remainder of 1999 and into 2000. This growth is expected to be driven primarily by: (1) increased demand for our diverse retail product mix, especially our local and data products, and (2) increased demand for bandwidth, including our new wholesale IP backbone product.

Cost of Services

Total cost of services increased \$28.0 million, from \$58.6 million for the nine months ended September 30, 1998 to \$86.6 million for the nine months ended September 30, 1999. Cost of services for retail services increased \$25.1 million, from \$53.5 million for the nine months ended September 30, 1998 to \$78.6 million for the nine months ended September 30, 1999. Cost of services as a percentage of revenue for retail services increased to 64% for the nine months ended September 30, 1999 from 62% for the nine months ended September 30, 1998. The increase in cost of services as a percentage of revenue from the first nine months of 1998 compared to the first nine months of 1999 was due primarily to (1) an increase in sales of the local resale product, which generally has lower margins, and (2) a decrease in long distance rates. Although we experienced a slight increase in the cost of services as a percentage of revenues in the first nine months of 1999 compared to the first nine months of 1998, we had successive reductions in this percentage in each quarter of 1999. We expect to continue to experience improvements in the cost of service as a percentage of revenues as we continue to move local and long distance services to our own facilities and as we receive reductions in our off-network costs. We expect that such improvements will continue to be partially offset by costs related to our advanced IP network.

Cost of services attributable to carriers' carrier services increased \$2.9 million, from \$5.1 million for the nine months ended September 30, 1998 to \$8.0 million for the nine months ended September 30, 1999. Cost of services as a percentage of revenue for carriers' carrier services increased to 15% for the nine months ended September 30, 1999 from 14% for the nine months ended September 30, 1998. The 1% increase in the cost of services as a percentage of revenue was due primarily to rate adjustments for customers to current market rates. We believe these pricing pressures will be offset in the future by an increasing demand for bandwidth.

Selling, Operations and Administration Expense

Total selling, operations and administration expense increased \$22.3 million, from \$46.3 million, or 37.6% as a percentage of revenue, for the nine months ended September 30, 1998 to \$68.6 million, or 38.9% as a percentage of revenue, for the nine months ended September 30, 1999. Selling, operations and administration expense attributable to retail services increased \$15.7 million, from \$35.7 million for the nine months ended September 30, 1998 to \$51.4 million for the nine months ended September 30, 1999, which represented an increase from 41% to 42% as a percentage of revenue. The increase in selling, operations and administration expense as a percentage of revenue for the retail services segment was attributable to:

- an increase in the number of employees, primarily employees dedicated to sales, customer support and provisioning;
- the expansion of our product lines, especially local and data; and
- continued geographic expansion, including the addition of 9 branch offices.

Selling, operations and administration expense attributable to carriers' carrier services increased \$6.6 million, from \$10.6 million for the nine months ended September 30, 1998 to \$17.2 million for the nine months ended September 30, 1999, representing an increase from 29% to 32% as a percentage of revenue. The increase in selling, operations and administration expenses for the carriers' carrier services was primarily due to additions of personnel resulting from the geographic expansion of our network, the infrastructure required to support the IP backbone and an increase in information systems, research and development, marketing and accounting costs.

Depreciation and Amortization

Total depreciation and amortization expense increased \$16.4 million, from \$21.4 million for the nine months ended September 30, 1998 to \$37.8 million for the nine months ended September 30, 1999. Retail services accounted for \$9.5 million of the increase, which was primarily related to installation of new central office and other telecommunications equipment. Carriers' carrier services accounted for \$6.9 million of the increase, which was primarily attributable to network expansion. We expect depreciation and amortization expense to continue to increase through the remainder of 1999 as we add new switches and network facilities and expand into new markets.

Interest Expense

Total interest expense increased \$10.1 million, from \$23.3 million for the nine months ended September 30, 1998 to \$33.4 million for the nine months ended September 30, 1999. The \$10.1 million increase was attributable to interest on our 8-7/8% Senior Notes, which we issued in March 1998, our 9¾% Senior Notes, which we issued in November 1998, and our 4½% Convertible Subordinated Notes, which we issued in May 1999. We expect interest expense to increase during the remainder of 1999 compared to 1998 due to interest on the 9¾% Senior Notes and the 4½% Convertible Subordinated Notes.

Interest Income

Total interest income increased \$2.9 million, from \$7.4 million for the nine months ended September 30, 1998 to \$10.3 million for the nine months ended September 30, 1999, as a result of the temporary investment of available cash balances pending their deployment for operations.

Other Income (Expense)

In March 1998, we reclassified our interest rate swap from a hedge of an anticipated transaction to a trading security. The reclassification resulted in a non-cash charge against earnings of approximately \$2.5 million. This change in classification required us to record the interest rate swap agreement on the consolidated balance sheet at fair market value. The interest rate swap agreement is marked to market on a monthly basis. For the nine months ended September 30, 1999 and 1998, we recognized income (expense) from the mark-to-market of the interest rate swap of approximately \$545,000 and \$(2.8) million, respectively.

Extraordinary Loss

During the nine months ended September 30, 1998, we incurred a pre-tax extraordinary loss of \$10.6 million, or \$8.4 million after tax, related to the redemption of \$70 million of our 11% Senior Notes. The extraordinary loss consisted of \$7.7 million redemption premium and a \$2.9 million write-off of related debt-issuance costs.

EBITDA, as adjusted

EBITDA, as adjusted, increased \$2.8 million, from \$18.3 million for the nine months ended September 30, 1998 to \$21.1 million for the nine months ended September 30, 1999. EBITDA, as adjusted, attributable to our retail services for the nine months ended September 30, 1999 was \$(7.4) million compared to \$(2.5) million for the nine months ended September 30, 1998. EBITDA, as adjusted, attributable to retail services decreased from (2.9)% of revenues for the nine months ended September 30, 1998 to (6.0)% of revenues for the nine months ended September 30, 1999. The decrease in EBITDA, as adjusted, for the retail services was primarily due to increases in local services provided on a resale basis, an increase in the costs associated with the expansion of new sales offices and the employment of additional personnel to support growth and expansion of this segment.

EBITDA, as adjusted, attributable to our carriers' carrier services increased \$7.6 million, from \$20.8 million for the nine months ended September 30, 1998 to \$28.4 million for the nine months ended September 30, 1999. The increase in EBITDA, as adjusted, for the carriers' carrier segment was primarily attributable to the increased demand for bandwidth, partially offset by rate adjustments for customers to current market rates.

Liquidity and Capital Resources

We generated net cash from operating activities of \$(7.5) million and \$8.4 million for the nine months ended September 30, 1999 and 1998, respectively. Changes in working capital were \$(7.5) million and \$6.0 million for the nine months ended September 30, 1999 and 1998, respectively. The change for the nine months ended September 30, 1999 resulted primarily from an increase in accounts receivable, inventory, and prepaid expenses, partially offset by an increase in accounts payable, accrued interest and accrued compensation and other accrued liabilities. For the nine months ended September 30, 1998, such changes were primarily due to an increase in accrued interest, unearned revenue, accrued compensation and other accrued liabilities and accounts payable and a decrease in income tax refund receivable from ITC Holding, partially offset by increases in accounts receivable, income tax refund receivable, inventory and prepaid expenses.

Cash used for investing activities was \$106.6 million and \$72.3 million for the nine months ended September 30, 1999 and 1998, respectively. The cash used in investing activities in the nine months ended September 30, 1999 and 1998 was primarily for the funding of capital expenditures. We made net capital expenditures of \$115.2 million and \$95.6 million for the nine months ended September 30, 1999 and 1998, respectively. Of the \$115.2 million of net capital expenditures for the nine months ended September 30, 1999, \$50.2 million related to carriers' carrier services and \$65.0 million related to retail services. Of the \$95.6 million of net capital expenditures for the nine months ended September 30, 1998, \$40.0 million related to carriers' carrier services and \$55.6 million related to retail services. The increase in cash used in investing activities results from our commitment to expand our existing network and facilities as we implement and execute our business plan.

Cash provided by financing activities was \$219.4 million and \$77.1 million for the nine months ended September 30, 1999 and 1998, respectively. Cash provided by financing activities for the nine months ended September 30, 1999 consisted primarily of net proceeds of \$97.0 million from the sale of the 4½% Convertible Subordinated Notes and \$120.9 million from the issuance of common stock in May 1999. Cash provided by financing activities for the nine months ended September 30, 1998 consisted primarily of net proceeds of \$155.2 million from the sale of the 8-7/8% Senior Notes, less \$70.0 million repayment of principal on the 11% Senior Notes and \$7.7 million premium payment on the early extinguishment of debt.

In May 1999, we completed an underwritten public offering and sale of 6,037,500 shares of our common stock, yielding net proceeds to us of approximately \$120.9 million. We intend to use the net proceeds from this offering (1) to fund an accelerated market expansion of our telecommunications business, including expansion of our fiber optic network, expansion of our local ISP telecommunications services and the opening of new sales offices and (2) for additional working capital and other general corporate purposes.

In May 1999, we completed a private offering and sale of \$100 million aggregate principal amount of our 4½% Convertible Subordinated Notes due 2006, yielding net proceeds to us of approximately \$97.0 million. The 4½% Convertible Subordinated Notes bear interest at an annual rate of 4 ½% payable each May 15 and November 15, beginning November 15, 1999. These notes are unsecured general obligations of ITC^DeltaCom and are convertible into common stock at any time after August 10, 1999, at a conversion price of \$26.67 per share, subject to adjustment in certain events. We may redeem the notes or make the notes nonconvertible under certain circumstances before May 17, 2002. We intend to use the net proceeds from this private offering (1) to fund an accelerated expansion of our fiber optic network and (2) to purchase switching equipment, inventory, and other electronics and network assets related to our fiber optic network and to our provision of primary rate interface connectivity to ISPs.

In May 1999, we amended our secured revolving credit facility with NationsBank, N.A. to permit (1) the acquisition of AvData, (2) the issuance of the common stock in the May 1999 common stock offering and (3) the issuance of and payment of interest on the 4½% Convertible Subordinated Notes, the redemption of those notes and the issuance of common stock upon conversion of those notes. No amounts are outstanding under the credit facility.

At September 30, 1999, we had entered into agreements with vendors to purchase approximately \$81.3 million of equipment and services. For the nine months ended September 30, 1999, we had made capital expenditures of approximately \$115.2 million. We currently estimate that our aggregate capital requirements through 2000 will total approximately \$250.0 to \$300.0 million (inclusive of the approximately \$81.3 million in commitments as of September 30, 1999). We expect to make substantial capital expenditures thereafter. Capital expenditures through 2000 will be primarily for the following:

- accelerated expansion of our fiber optic network in Texas, including Austin and San Antonio, and in Tennessee, including Memphis, Nashville, Chattanooga and Knoxville;
- continued addition of facilities-based local telephone service to our bundle of integrated telecommunications services, including acquisition and installation of switches and related equipment;
- continued addition of switching capacity, electrical equipment and additional collocation space in connection with the expansion of our ISP local telecommunications services;
- market expansion; and
- infrastructure enhancements, principally for information systems.

The actual amount and timing of our capital requirements may differ materially from the foregoing estimate as a result of regulatory, technological and competitive developments (including market developments and new opportunities) in our industry, or if we decide to make acquisitions or enter into joint ventures and strategic alliances.

In July 1999, we completed our acquisition of AvData. We issued 983,511 shares of our common stock to consummate the merger, of which 171,898 shares are being held by a trustee in escrow for two years to protect against certain contingencies. The transaction is subject to an earnout, which, if certain performance objectives are met, could require us to issue up to an additional 336,730 shares of common stock in 2000.

In August 1999, we completed our acquisition of certain assets of SciTel. We issued 83,117 shares of common stock to consummate the transaction. This acquisition expanded our physical presence in Mississippi to include the Hattiesburg, Tupelo and Greenwood markets.

As of September 30, 1999, we had \$289.5 million of cash and cash equivalents, excluding restricted investments. We believe that proceeds from the May 1999 common stock offering, proceeds from the May 1999 convertible subordinated notes offering, cash on hand and cash flow from operations will provide sufficient funds to enable us to expand our business as currently planned. In addition, subject to compliance with applicable covenants in the credit agreement, we may borrow funds under our credit facility to supplement the capital we need to expand our business as currently planned. In the event that our plans or assumptions change or prove to be inaccurate, the foregoing sources of funds may prove to be insufficient to fund our currently planned growth and operations. In addition, if we successfully complete any acquisitions, we may be required to seek additional capital sooner than currently anticipated. Additional sources may include equity and debt financing and other financing agreements, such as vendor financing. We cannot assure you that we will be able to generate sufficient cash flow from operations or that additional financing arrangements will be available or, if available, that they can be concluded on terms acceptable to us. Our inability to generate or obtain sufficient funds would result in delay or abandonment of some or all of our development and expansion plans, which could have a material adverse effect on us.

Although our liquidity has improved, our level of indebtedness and debt service obligations significantly increased as a result of our issuance of the 11% Senior Notes, the 8-7/8% Senior Notes, the 9% Senior Notes, and the 4½% Convertible Subordinated Notes. The successful implementation of our strategy, including expansion of our network and obtaining and retaining a significant number of customers, and significant and sustained growth in our cash flow are necessary for us to be able to meet our debt service requirements. We cannot assure you that we will successfully implement our strategy or that we will be able to generate sufficient cash flow from operating activities to improve our earnings before fixed charges, or to meet our debt service obligations and working capital requirements. Our ability to meet our obligations will be dependent upon our future performance, which will be subject to prevailing economic conditions and to financial, business and other factors.

Year 2000

The Year 2000 Issue. The Year 2000 issue is the result of a computer programming practice first utilized during the 1960s when storage space was very expensive and processing capability was limited. By shortening the year portion of date field entries to two digits rather than four, programmers could save valuable storage space and increase data processing speeds. This method of date entry became the standard method for programmers for mainframes, personal computers, and hardware, including processor chips. Because of this programming convention, software, hardware, or firmware may recognize a date field using "00" as the year 1900 rather than the year 2000. If left uncorrected, this could possibly result in system failures, miscalculations, or errors causing disruptions in software-dependent operations.

Program Execution and Oversight. We have established a Year 2000 project office, and our executive management reviews our progress on Year 2000 efforts on a monthly basis. The board of directors has designated the Year 2000 oversight role to its Audit Committee, which receives periodic updates and progress reports on our Year 2000 preparations.

To execute our Year 2000 program, we are utilizing both internal and external resources to identify, correct, reprogram and test our systems for Year 2000 compliance. Our use of internal resources to achieve the aims of our Year 2000 program has not had a material adverse effect on our ability to develop new products and services or to maintain and upgrade, if necessary, our existing products and services. Our use of external resources to achieve the aims of our Year 2000 program has not had a material adverse effect on our operations or earnings.

ITC^DeltaCom's Program. We have undertaken a comprehensive program to address the Year 2000 issue with respect to the following:

- our information technology and operating systems, including network switching, customer service, call detail and billing systems;

EXHIBIT 27.1**Financial Data Schedule
(In thousands)**

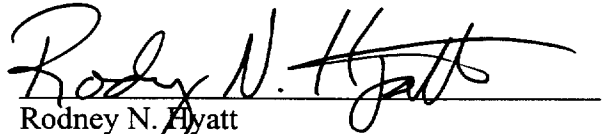
This financial data schedule contains summary financial information extracted from the unaudited balance sheet of ITC/DeltaCom, Inc. as of September 30, 1999 and the related unaudited, consolidated statements of operations for the nine months ended September 30, 1999. This information is qualified in its entirety by reference to such financial statements.

<u>PERIOD-TYPE</u>	<u>9-MOS</u>
Fiscal Year End	Dec. 31, 1999
Period Start	Jan. 01, 1999
Period End	Sep. 30, 1999
Cash	289,464
Securities	0
Receivables	53,309
Allowances	2,028
Inventory	4,365
Current Assets	365,479
PP&E	437,765
Depreciation	89,003
Total Assets	818,529
Current Liabilities	68,504
Bonds	516,329
Preferred Mandatory	0
Preferred	15
Common	594
Other-SE	232,575
Total Liability and Equity	818,529
Sales	176,221
Total Revenues	176,221
CGS	86,562
Total Costs	193,014
Other Income	545
Loss Provision	677
Interest Expense	33,401
Income Pretax	(39,381)
Income Tax	94
Income Continuing	(39,475)
Discontinued	0
Extraordinary	0
Changes	0
Net Income	(39,475)
EPS-Primary	(.71)
EPS-Diluted	(.71)

EXHIBIT C

THE DEBT OBLIGATION IS IN ACCORDANCE WITH LAW

I, Rodney N. Hyatt, in my capacity as Assistant General Counsel, hereby attest that, assuming the receipt of pending state regulatory approvals, including approval of the Tennessee Regulatory Authority, ITC^DeltaCom's position as a guarantor under the credit facility described in this Application is in accordance with the laws of the United States and the State of Tennessee to the best of my knowledge and belief.


Rodney N. Hyatt
Assistant General Counsel
ITC^DeltaCom Communications, Inc.